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Green, Francis Joseph

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Francis Joseph Greene

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Abstract

This thesis investigates small employment growth businesses and their use of accountancy support in the Northern region of England. Two separate and independent surveys of accountants and small business in the region are used to explore this issue. The thesis also uses three robust measures of growth. The thesis finds that small firms that experience fast employment growth are more likely to use government sponsored support rather than the support provided by accountants or other sources. This is a surprising finding, particularly as accountancy support is often identified as being the most common source of support for small firms. The thesis then goes onto to investigate if this is due to a demand side failure. The thesis finds little evidence of this. It also finds that the supply of accountancy services is constrained and accountants adopt a reactive rather than proactive approach to their clients. The implication of these findings is that there is evidence to suggest that there is a supply-side failure in the provision of accountancy services to fast growth businesses. This suggests that publicly funded provision of support to small firms who have experienced employment growth is important. It also suggests that accountancy practitioners may have to re-orientate their support they offer to such clients.

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Declaration

None of the material contained in this thesis has previously been submitted for a degree in the University of Durham or any other University. The datasets upon which this thesis is based was the result of the collaboration with Kirby, D.A. and Najak, B. Two publications resulted from this joint research:

Greene F., Kirby D.A., and Najak B., (1997)'A Taxonomic Study of Small Businesses in the Northern Region of England', International Council for Small Business Conference, San Francisco, June.

Kirby, D.A., Najak, B. and Greene, F.J. (1998) *Accounting for Growth: Seeking Ways Accountants Can Add Value to Small Businesses*, London: ICAEW.

The current work bears little relation to this joint research. The author is responsible for the entirety of this thesis.

Statement of Copyright

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My biggest thanks go to Debbie. She has never shown the slightest interest or inclination to read this leviathan (who can blame her?) but has supported and encouraged me through the long nights and lost weekends that this thesis represents. Without her I doubt if this thesis would ever have come to fruition.

Chapter 1: Introduction

In the 1970s, policy makers, support providers and academics largely ignored small businesses. Interest in them largely came from sociologists or psychologists interested in uncovering either how the *petite bourgeoisie* persisted or what motivated individuals to become self-employed. The general consensus was that in many respects the small business owner-manager was socially marginal: "they tend to be people who consider themselves misplaced by the conventional role allocation processes of their society" (Stanworth and Curran, 1976: 102). Economists, too, saw small businesses as a backwater: "because many small firms appear to be inefficient, traditionalist and family-ridden, the small firm-sector as a whole is seen as inimical to progress and professionalism" (Boswell, 1973: 19).

The discovery that small firms were the primary source of employment generation changed these perceptions (Birch, 1979). Small firms were subsequently seen as "the key to future growth and prosperity for the UK economy as older, traditional industries die" (Blackburn and Jennings, 1992: 7). Margaret Thatcher, for example, saw them as a panacea - "small businesses really are about creating, not only businesses, but jobs" (cited in the *Employment Gazette*, 1985: 339) - whilst David Young (later Lord Young) also enthused:

> The success of small firms is critical to the success of our economy. Too many people regard the emphasis we place on small firms as some amiable eccentricity. Yet their record in creating jobs shows that, far from being a

> fringe activity, they are at the centre of generating employment. (cited in *Employment Gazette*, 1986: 444)

Perhaps unsurprisingly, therefore, there has been a dramatic increase in the number of initiatives designed to support small firms. Beesley and Wilson (1984) have, for example, shown that the pace of government intervention increased from 2 measures (1946-1960) to 13 (1961-1970) and then onto 33 (1971-81). Subsequently, Curran and Blackburn (2000) have identified that the pace of intervention increased to 103 initiatives in 1989 whilst Gavron et al (2000) have pointed out that the number of support policies has further increased to over 200 at the cost of £632m (1995-96).

Are these interventions necessary? If there were, then there are two grounds upon which such intervention may be justified. The first is where there is evidence of market failure (Brock and Evans, 1989). This could take two forms. First, it may be that there is a demand side failure. This may arise in situations where small firms are ignorant of sources of support, where they find services to be too costly or where they do not appreciate the value of such services. Alternatively, it may be that there is a supply-side failure. This is likely to occur when supply-side providers do not provide suitable services, where they are unable to appropriately signal the value of their services or in instances were they, themselves, fail to appreciate the needs of a small firm.

A second justification is that the public providers of support perceive a role in supporting economic development because the economy of a particular locality or region is economically disadvantaged. Hence, public providers of support may judge that they have a role to play in supporting particular firms within a given economy

They may, therefore, deem it appropriate that they concentrate resources on firms with the greatest likelihood of increasing employment (Curran, 2000). There are two broad strategies that they may choose to adopt: either concentrate upon increasing the quantity of enterprises (start-ups) or seek to increase the quality of existing businesses. Either way, such support may be critical for regions such as the Northern region of England which remain, relative to the South East, economically depressed.

This thesis sets out to investigate the use of support to businesses in the Northern Region of England. It begins by contextualising the economic position of the region within the broad economic changes that have occurred over the preceding twenty years. We shall see that, whilst there has been a dramatic increase in the UK enterprise population, the Northern region is, arguably, the least entrepreneurial region of the UK.

The following chapter considers whether or not support should be directed towards increasing the quantity or quality of the small business population. We shall see, through new evidence, that there may be some justification for supporting increases in the quantity of the small business population. Nevertheless, it is also clear that the available evidence suggests that this is a direction fraught with difficulties. These principally fall into four categories: statistical doubts about the validity of job accounting studies; worries about the perishability of small business; concerns about the non-economic motives of many small businesses; and evidence which suggests that the majority of available job generation is due to a minority of small fast growth businesses. The accretion of evidence, notwithstanding the importance of start-ups to

the UK economy, suggests that if the Northern region is to improve, then there are strong grounds for concentrating on such businesses.

The trouble with this approach, as Chapter 4 suggests, is that there are no easy ways to readily identify the characteristics of small employment growth businesses. Previous attempts, using a variety of entrepreneurial characteristics, firm characteristics and the strategic orientation of the business have failed to suggest a robust set of factors (Storey, 1994). This thesis does not attempt to add to these studies by identifying yet more predictive factors. This thesis, instead, is concerned with assessing what sorts of support are used by small employment growth businesses. In doing so, it should not be assumed that the thesis seeks to identify a causal link between use of support and employment generation.

Chapter 4 suggests four alternative types of support. The first of these is that the small business owner-manager makes no use of support whatsoever. This is the position adopted by orthodox economic theory. A second source of support available to the owner-manager is social forms of support such as family, friends and existing contacts. A third source of support is provided by private sector sources such as accountants, the bank or a solicitor. The final source of support is that of network substitutes (e.g. government agencies, Chambers of Commerce) which seek in some way to represent or aid these businesses.

A priori, this thesis anticipated that the accountancy support would be the central source of support for small employment growth businesses. This is based upon evidence that suggests that accountancy support was the most common source of

support for small businesses. If it is not central to small employment growth businesses, then there may be perhaps grounds for investigating if there is a demand or supply-side failure. In Chapter 5, hypotheses are developed to test the use of support by such businesses and any evidence of a market failure of support.

In Chapter 6, however, we shall see that there are methodological problems with assessing the support used by small employment growth businesses. In part, these are due to the difficulties in developing robust samples, particularly of small businesses. Chapter 6 suggests ways in which these issues may be dealt with.

Another potential area of difficulty is that there are a variety of units of analysis (e.g. turnover, employment, assets) or metrics (e.g. absolute or relative change in a unit of analysis) by which small employment growth businesses can be assessed. This thesis makes sole use of employment as its unit of analysis. This is because - despite businesses themselves being more likely to use turnover as a means of measuring their growth (Barkham et al, 1996) - employment creating businesses may be considered to be of more importance to areas such as the Northern region of England. It is more difficult, however, to make judgements about the appropriate growth metric to be used in conjunction with employment growth. If an absolute measure (real change) is adopted, larger businesses are more likely to seen to be more growth orientated. On the other hand, a relative measure (proportionate change) is more likely to identify smaller businesses as being growth orientated (Delmar, 1997). As a solution to such issues, this thesis investigates absolute, relative and combined absolute/relative employment growth.

Chapters 7, 8 and 9 test the hypotheses derived in Chapter 5. The dataset upon which these results were based was previously used in Kirby et al (1998). Kirby et al (1998), however, did not consider small employment growth businesses nor did it consider the existence of market failure in the use and provision of accountancy support.

Chapter 7, therefore, considers, using univariate and multivariate techniques, the use of support by small employment growth businesses. Chapter 8 examines the evidence for any demand side 'failure' in the use of accountancy support whilst Chapter 9 investigates the probability of their being a supply-side 'failure' in the provision of such support.

The thesis finds that there is distinct evidence of the use of publicly provided support by small employment growth businesses. It also finds that accountants are failing to provide appropriate accountancy support to such businesses. The implications of this are discussed in the conclusion.

Chapter 2: Estimating Changes In UK Enterprises

2.1. Introduction

Curran (1999) has suggested a variety of explanations for the increase in the UK's enterprise population over the last twenty years. For example, it may be due to the development of an 'enterprise culture', the vertical disintegration strategies of larger enterprises, changes in demand or the growth of the service economy. Other reasons also present themselves: increased levels of unemployment; a reduction in the minimum efficient scale; and changes to the technological/innovatory capacity of smaller sized businesses.

None of these explanations, Curran (1999) counsels, should be seen in isolation or as the only explanation for the fact that the UK enterprise population has increased from 2.4 million in 1980 to 3.7 million in 1997.

This chapter does not seek to provide original evidence as to the contribution of these explanations. Instead, the chapter has three aims. First, having exposed the difficulties in appropriately estimating changes in the enterprise population, it seeks to provide background information on changes to the enterprise population both in terms of changes in the VAT stock and to self-employment rates. This first section of the chapter then goes onto consider the influence of vertical disintegration strategies pursued by large firms on changes in the enterprise population. It also

considers the contribution of an 'enterprise culture'. Usually, this is seen in terms of 'pull' factors because individuals may be thought to be more aware of entrepreneurial opportunities. However, the 1980s were also a period of endemic unemployment and it may be just as valid to discuss if individuals, with no realistic form of alternative economic activity, were 'pushed' into venture creation.

The second section of the chapter examines sectoral change in the UK enterprise population. We shall see that the growth of the service sector economy may provide a useful explanation for the increases in the enterprise population (Keeble et al, 1992; and Bryson et al, 1997). It may also be explained, along with the general increase in the population, by changes to the technological and/or innovatory propensities of small businesses (Acs et al, 1991).

The last section of the chapter examines spatial aspects of the changes in the enterprise population. It suggests, based upon VAT registration/deregistration rates that the Northern Region of England (Cumbria, Northumberland, the former county of Cleveland, County Durham and Tyne and Wear) is, arguably, the least entrepreneurial region of the UK.

This is neither a new or novel suggestion (Irwin and Grayson, 1980; Storey, 1982; Pilmott, 1985). Explaining it, however, remains difficult. Indeed, it may be that many of the changes in the UK economy over the last twenty years have exacerbated the region's low rate of entrepreneurship. This chapter, briefly, considers reasons why this may have occurred (e.g. cultural and economic aspects) but suggests that one (although admittedly not the only reason for its decline) is its failure to adopt

appropriate support systems to enhance entrepreneurship (Bennett and McCoshan, 1993).

We will return to this issue in later chapters when we consider the role of support. Let us, however, begin with an overview of the problems associated with estimating the UK enterprise population.

2.2. Estimating the UK Enterprise Population

There are a number of difficulties with official estimates of the UK enterprise population. This is principally due to there being no complete census of business activity. Without this, reliance is placed upon a variety of differing data sources. Thus, in terms of self-employment data, much of what we know is derived from the Labour Force Survey (LFS) and the Survey of Personal Incomes (SPI)[1]. Outside of the self-employed, there are a number of other official sources of data on business activity.

[1] Both of these are useful sources of information. The LFS is an annual sample survey of about 60,000 UK private households. It collects information on employment status (e.g. employed/self employed), numbers at workplace, earnings, industry, region, and hours worked. The SPI samples 1% of the PAYE database and gleans information on the sex, martial status, pay and pensions of individuals. The SPI also samples self-employed people (Schedule D) and tracks their geographic location and industrial sector. However, as the LFS and SPI are surveys rather than a census, they give a limited indication of self-employment activity. The LFS, in particular, has well understood biases: individuals may misrepresent their status or, because one-third of interviews are proxy interviews (interviews conducted with individuals with some association with the intended person). Laux (1998) has suggested that young people and those living in urban areas are likely to be under-represented.

These include: Companies House information; the Annual Business Inquiry[2]; the Census of Agriculture; the New Earnings Survey (NES)[3]; and the Annual Employment Survey (AES)[4].

By far and away most important source of information on small businesses is the Inter-Departmental Business Register (IDBR). This register is based upon two principal data sources: Value Added Tax (VAT) data from Customs & Excise; and Pay As You Earn (PAYE) data from the Inland Revenue (Perry, 1995). The IDBR has around 2 million businesses and claims to cover 98% of economic activity[5].

The IDBR does have a number of problems. Partington and Mayell (1998), Selden (1998) and Maratos (1997) have indicated that problems result because VAT and PAYE information is incidental to the purposes of both Customs & Excise and the Inland Revenue. Hence, there is the potential for overestimation of turnover by new registrations; the possibility that firms who deregister may not give a true picture of their turnover; delays in the deregistration/registration process; and the chance that

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[2] This survey, which replaced the Census of Production/Construction samples approximately 16,000 businesses in the production and 4,000 in the construction sector.

[3] The NES is an annual sample of 1% of employees who are members of PAYE scheme. It is sent to the employee's employer based upon the employee having a National Insurance number that ends with 14. The information collected relates to earnings of the employee for a particular period, their age, hours worked, occupation, industry and location. It is used in conjunction with the Survey of Wages and Salaries (a panel survey of 8,000 firms, predominantly with more than 25 employees) to track changes in the Average Earnings Index (Laux, 1998).

[4] Like its predecessor, the Census of Employment, the AES statutorily requires employers to provide information on the numbers of employees (men and women, full and part-time), electoral ward area, and industrial classification. (Partington et al, 1997).

[5] Entry onto the IDBR is dependent upon information collected from PAYE sources (1.1 million employers) or from those who are registered for VAT purposes (1.7 million traders). Information collected by the register includes the name and address of the enterprise, SIC(92), level of employment, turnover and legal status.

businesses who deregister may fail to provide a contact address[6].

Adding to these difficulties is the fact that firm 'births' and 'deaths' are not synonymous with registration or deregistration on the IDBR. Firms, for example, may be 'born' many years before the register. Equally, deregistration does not necessarily mean the closure of a business due to a buyer being already registered for VAT.

Related to this issue, is the concern that the IDBR misses many businesses. This is for a variety of reasons. First, in terms of VAT data, some firms may find that they have fallen below the turnover threshold[7]. This has been a particular problem in recent years when, in a measure designed to lessen the compliance burden on small businesses, above average inflation increases in the threshold level were instituted[8]. This has served to increase the likelihood that many small businesses will no longer be registered and created discontinuities in the data (Fuller, 1994)[9]. Additionally, it is clear that VAT data excludes certain exempt goods and services, zero rated businesses, group registrations, or divisional registrations. It is likely, therefore, that the IDBR misses many smaller sized businesses, under-estimates the number of shortlived businesses, the self-employed and those operating in the 'hidden' economy (Dale and Kerr, 1995).

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[6] For PAYE data, similar problems also exist, partly because such information is collected on a quarterly basis, but also because there exists the potential for employers to misrepresent their employee numbers by incorrectly assuming that the standard definition of full-time work is say 37 hours rather than 30 hours per week.

[7] The VAT threshold was £48,000 in 1997. It is now (April 2000) £52,000.

[8] In 1991 the VAT threshold increased from £25,400 to £35,000 and in 1993 it increased from £37,000 to £45,000.

[9] This also applies to PAYE whose threshold was £78 per week in April 1997 and £84 in April 2000.

Another factor that makes a longitudinal estimate of the small business population difficult is the recent changes to the way sectors are composed. This is a result of the changeover from Standard Industrial Classification (SIC)(80) to SIC(92)[10]. As Walker (1993) suggests, these two methods of sectoral classification are discontinuous and, therefore, make it difficult to longitudinally track changes in individual sectors. Hence, where before SIC(80) ranged through 99 classes, SIC(92) ranges across 17 sections[11]. Similarly, it is clear, that SIC(80) differs in the way that it classifies certain activities to SIC(92). For example, the repair and maintenance of computers, once thought of as a manufacturing activity (SIC(80)) has been reclassified as a service sector activity. Finally, at a lower level of disaggregation, it is clear "where activities previously covered by one code are now covered by more than one code, it is not possible to convert automatically from one classification to the other" (Walker, 1993: 88).

2.3. An Estimate of the UK Enterprise Population

Although faced with discontinuities in the data, difficulties in estimating the numbers of self-employed and the likely under-reporting of business activity, official estimates have suggested that there were nearly 3.7 million active businesses in the UK at the start of 1999 (Table 2:1).

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[10] SIC(92) was introduced, rather hurriedly (Walker, 1993), to comply with a European Union directive to standardise the statistical classification of businesses in the European Union.

[11] SIC(92) is a hierarchical 5 digit system comprising 17 sections (A to Q), 16 sub-sections, 60 divisions, 222 groups, 503 classes and 142 sub classes (Walker, 1993). SIC(80), on the other hand, ran from 01 (Agriculture) through to 00 (Personal Service Activities).

The vast majority of these businesses were made up of self-employed individuals. These represented some 63.2% of all businesses, 12.5% of employment and 4.7% of turnover. Beyond this, if we were to equate small businesses with the 50 employee level (DTI definition), then their contribution to employment is 44.0% and 37.7% of turnover. Furthermore, if we look at those businesses with fewer than 200 employees (Bolton, 1971), small businesses contribute 57.8% of employment and 49% of turnover.

Table 2:1: Number of Businesses, Employment & Turnover by Size of Enterprise at start-1999

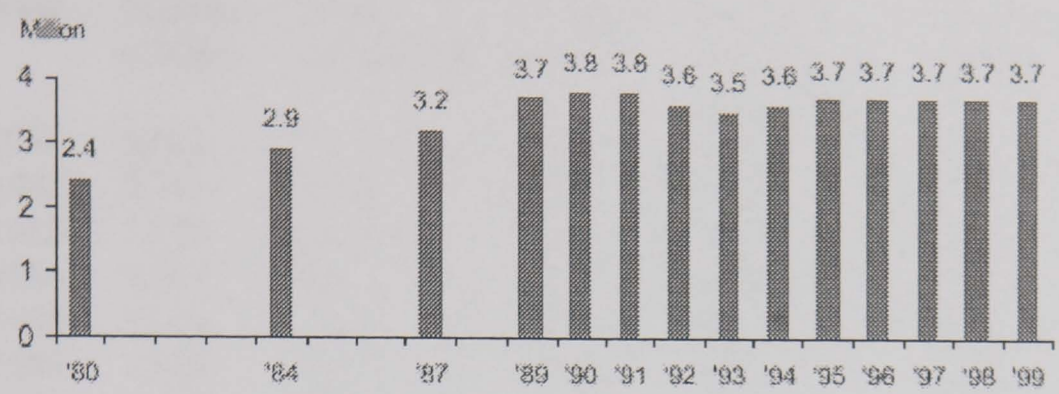
Size (number of employees)	*Number* Businesses (000s)	Employ-ment (000s)	Turnover[12] (£ millions)	*Percent* Businesses	Employ-ment	Turn-over
None	2,324,340	2,708	90,463	63.2	12.5	4.7
1-4	963,615	2,395	221,986	26.2	11.0	11.4
5-9	201,835	1,459	123,029	5.5	6.7	6.3
10-19	109,280	1,533	149,451	3.0	7.1	7.7
20-49	46,955	1,462	147,505	1.3	6.7	7.6
50-99	14,450	1,011	102,860	0.4	4.7	5.3
100-199	8,165	1,131	116,638	0.2	5.2	6.0
200-249	1,570	349	38,633	-	1.6	2.0
250-499	3,220	1,121	149,275	0.1	5.2	7.7
500+	3,515	8,576	804,039	0.1	39.4	41.4
All	3,676,940	21,746	1,943,880	100	100	100
All 1+	1,352,600	19,038	1,853,417	36.8	87.5	95.3

- fewer than 0.05 per cent.
Source: Small Business Service, 2000

In terms of historical trends, Figure 2:1 shows that in 1980 there were an estimated 2.4 million enterprises in the UK. By 1990 this had increased by 50% to 3.8 million. Since that high point, the enterprise population dropped somewhat in the recession in the early of 1990s before returning to a level commensurate with that of the late 1980s/early 1990s.

[12] Finance sector turnover excluded from turnover totals.

Figure 2:1 Number of Enterprises in the UK, 1980-1999



Source: Small Business Service, 2000

Disaggregated into changes in the self-employment rate and the VAT stock, we can see, looking first at self-employment (Table 2:2), that much of the increase in self-employment rates occurred after 1986. Since that time, rates steadily increased throughout the late 1980s until the rate reached its peak in 1990. We can also see that the number of self-employed people, as a percentage of the workforce, has increased from 11.3% in 1984 to 12.5% in 1997. This represents an increase of 10.6%. Moreover, in terms of the actual numbers of self-employed people, Table 2:2 shows that the number of self-employed people has increased from 2,692,000 to 3,335,000 (12.4%), with the number of full-time self-employed increasing by 15.5% and the part-time self-employed by 33.5%.

Table 2:2: Changes in UK Self-Employment, 1984-1997

Year	Number (000s)	% of workforce	Full-time (000s)[13]	Full-time (% of self-employed)	Part-time (000s)	Part-time (% of self-employed)
1984	2,692	11.3	2,235	83.0	457	17.0
1985	2,781	11.4	2,313	83.2	468	16.8
1986	2,799	11.4	2,356	84.2	443	15.8
1987	3,057	12.3	2,545	83.3	512	16.7
1988	3,228	12.5	2,714	84.1	514	15.9
1989	3,526	13.2	2,972	84.3	554	15.7
1990	3,572	13.3	3,008	84.2	564	15.8
1991	3,415	12.9	2,896	84.8	519	15.2
1992	3,227	12.7	2,683	83.1	544	16.9
1993	3,184	12.6	2,606	81.8	578	18.2
1994	3,300	13.0	2,692	81.6	608	18.4
1995	3,355	13.0	2,729	81.3	626	18.7
1996	3,286	12.6	2,642	80.4	644	19.6
1997	3,335	12.5	2,646	79.3	687	20.6

Source: Moralee, 1998

Equally, in terms of the VAT registered businesses, there has also been a dramatic increase in the number of businesses willing, able, or resigned to meet the successive increases in the VAT threshold[14]. As Table 2:3 shows, the stock of VAT registered businesses over the period 1980-1999 has risen from 1.3 million to 1.6 million businesses. This represents an increase of 22.9%. Much of this increase occurred in the 1980s when, over the decade, the stock of businesses increased by 27.3%. Table 2:3 shows that there were large increases in particular years. For example, 1981 and 1983 saw a net increase in VAT registrations of more than 30,000. In later years, the increases were even more marked. The period between 1987-1990 saw large increases in the number of VAT registered businesses. In 1988 and 1989, for instance, 66,150 and 77,835 business, respectively, were added to the register. Indeed, over the 1987-1990 period, the VAT registered population rose by

[13] Data for full and part-time work may not sum in some cases as respondents to the LFS did not choose to give their status.
[14] The VAT threshold has risen from £10,000 in 1979-1980 to its present level of £52,000.

approximately 230,000 businesses. Since that time, the VAT population declined somewhat in the early 1990s before beginning to increase in 1996.

Table 2:3: UK VAT stock, registrations, de-registrations and net change, 1980-99

	Stock at year start	Registrations	De-registrations	Net change
1980	1,304,390	160,550	145,270	15,280
1981	1,319,670	154,135	122,590	31,545
1982	1,351,215	168,280	148,315	19,965
1983	1,371,175	182,550	148,080	34,470
1984	1,405,650	184,575	155,085	29,490
1985	1,435,135	184,865	166,760	18,105
1986	1,453,240	193,755	169,070	24,685
1987	1,477,930	211,795	172,580	39,215
1988	1,517,140	245,800	179,650	66,150
1989	1,583,290	258,840	181,005	77,835
1990	1,661,125	239,105	191,840	47,265
1991	1,708,395	204,565	209,845	-5,280
1992	1,628,000	187,000	226,000	-39,000
1993	1,589,000	191,000	213,000	-22,000
1994	1,609,300	162,000	188,100	-26,100
1995	1,600,100	164,000	173,200	-9,200
1996	1,603,200	168,200	165,100	3,100
1997	1,621,300	182,600	164,500	18,100
1998	1,651,600	186,300	155,900	30,400
1999	1,658,100	178,500	172,000	6,500

Source: Small Business Service, 2000

It may be thought that this may be principally due to the effect of the business cycle. This may have had an influence, but it is also clear that an increase in the enterprise population, particularly in the 1980s, was not confined to the UK. Loveman and Sengenberger (1991), in a study of six OECD countries in the 1980s (Japan, France, Germany, Italy, the UK and the US), showed that the employment share of small US businesses (fewer than 100 employees) broadly followed a 'V' shaped pattern: falling from 41.3m employees (1958) to 39.9m (1967) before rising to 45.7m in 1982. Stanworth and Gray (1991) also found a similar 'V' shaped pattern for UK small manufacturing businesses (fewer than 200 employees). Their evidence suggests that

such businesses represented 38.4% of employment in 1935. This fell to 20.7% in 1973 before rising to 31.2% in 1988. By 1994 this figure had increased to 36.2% (Source: ONS, 1994)[15].

These changes have not gone unnoticed. To conclude this first section, we consider the influence of large firms in these processes and the role of 'enterprise culture'.

2.3.i. Fragmentary Formations

If smaller sized businesses have increased their employment share over the last twenty years, it may be suggested that this is a result of a change in the governance structures employed by economic agents. From a theoretical viewpoint, such a suggestion may be derived from the transaction cost theory. Coase (1937), for example, has argued that economic agents employ governance arrangements (firms) rather than rely upon the market when they are faced with transaction costs in using the market (search costs, difficulties in writing fully state contingent contracts, and/or diminishing returns to management). Williamson (1975, 1985), in developing these insights, has also suggested that governance structures are likely because economic actors face bounded rationality[16]; the likelihood of opportunistic acts (i.e. "self-interest

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[15] It is not possible to calculate the long run employment share of all small businesses as figures were only been collected for manufacturing. The source of this data – Business Monitor PA1003 – also stopped presenting the employment share of small manufacturing businesses after 1994. More recent estimates of manufacturing employment share (e.g. Selden, 1998), are not comparable with earlier data because they are calculated on SIC(92) and because the size calculation equates to businesses with fewer than 250 employees.

[16] Williamson borrowed this concept from Simon (1957) who had argued that humans behaviour was "intendedly rational, but only limitedly so" (p. xxiv).

seeking with guile" (Williamson, 1985: 30)); and because assets have differing specificities.

These three factors, however, do not necessarily lead to one uniform governance structure. Williamson (1985) contends that economic governance can be placed along a continuum: at one end is the absence of governance structures (the market) whilst at the other extreme is a monopolist. Market solutions, for Williamson (1985), are likely when economic actors can be said to be fully cognisant of all contingencies, are sure that no other actor can act in an opportunistic manner and where the products have a low asset specificity (standardised).

Firms, on the other hand, are much more likely to result when, under uncertainty (bounded rationality, opportunism) and high levels of asset specificity, economic actors are unable to write fully state contingent contracts (see also Hart, 1995) (i.e. they find it more economical to internalise the transactional costs of using the market (McGuiness, 1987)).

In terms of smaller sized enterprises, Williamson (1975) argued that there are advantages in 'peer' groups (partnerships) or 'simple hierarchies' (owner-managed businesses) since, presuming indivisibility, risk-bearing and associational advantages, such businesses can economise on asset and information costs (indivisibilities); income guarantees against contingencies (assuming appropriate *ex ante* and *ex post* arrangements); and "attitudinal interaction effects" (p. 248) (association gains).

Viewed from this theoretical framework, interesting parallels can be seen in the work of Shutt and Whittington (1987) who have argued that "the sector's [small business] rise does not represent an independent source of new employment but merely a transfer of employment from large units to small" (p.21). This claim is derived from three suggested economic changes to the large firm's environment: increased innovation risk; demand risk (unforeseen changes in aggregate demand); and an inability to control the labour process. In response to these challenges, Shutt and Whittington (1987) contend that large firms adopt one or more strategies. First, they can seek to decentralise production to a series of subsidiaries. Large firms may also attempt to control by devolving production management to licensed or franchised operations whilst still retaining financial control. Finally, such firms may seek to exercise control through the exercise of market power.

Support for this idea that large businesses have attempted to control their transaction costs comes from Harrison (1994) who has argued that the seeming growth of small businesses is the result of a determined and concerted effort by multinational firms to increase their flexibility. Hence, Harrison cites a determination of many such firms to concentrate upon their 'core competencies' and, thereby, seek to transfer risk to smaller businesses. The consequence of such actions, Harrison contends, has resulted in "the role that small firms are playing is typically that of follower, not leader" (p.8)[17].

[17] Cast as dependent, this argument, of course, has resonances with the 'core-periphery' model suggested by NEDO (1986) which argues large firms may seek to divide its employees into core workers and periphery workers (part-time, temporary or sub-contractors (the self-employed)).

Empirically, there is further evidence to support these claims. Rainnie (1991), for instance, in a study of subcontractors in Hertfordshire, has shown that large firms responded to change not by vertically disintegrating but drawing in small firms to dependent relations. This, he suggests, has led to the increased marginalisation of small firms in which "their status is secondary, uncertain and often dependent" (p. 71).

Hart and Hanvey's (1995) study of manufacturing firms in Wearside, Northern Ireland and Leicestershire has also argued, despite the apparent growth in the employment share of small firms in such regions, that it is the activities of large firms that predominate:

> The evidence from the analysis of this paper demonstrates that irrespective of the performance of the small firm sector the key determinant of employment growth or decline are the activities of larger firms, whether indigenously or externally owned. (p. 109)

In the US, Kelley (1990) has shown that 57% of large firms in the metalworking and machining sector were likely to sub-contract some part of their machining operations. Similarly, in a follow up study, Harrison and Kelley (1993) found that "the larger the parent company, the more that strategic concerns of the corporation favour the maintenance of a subcontracting network outside the firm" (p.229). For Harrison (1994), the development of subcontracting and the division of labour into core and periphery cannot be seen as being to the benefit of smaller businesses. Indeed, Harrison has suggested that the development of such relationships is principally a response to the increased transaction costs that large firms face given the vagaries of demand, workers and competition. Hence, Harrison (1994) argues that alongside

subcontracting, large firms have developed strategies based upon co-ordinating markets through the development of strategic alliances with other large firms.

However, whilst it may be true that the enterprise population may have grown because of changes in governance structures, it would be difficult to argue that this is the only reason for their development. At a theoretical level, two doubts may be expressed about such claims. First, from a transactional cost perspective, large firms would be unlikely to cede control of strategically important products or processes to outside contractors, regardless of how 'dependent' they appeared, as this would make the large firm vulnerable to the opportunistic behaviour of such contractors. Second, outside of the transaction theory framework, Demsetz (1993) has argued that although transactional costs may be prohibitive, the structure of organisations is not only shaped by these costs (see also Casson and Jones, 1997; Dietrich, 1994; and Niman, 1991). Indeed, transaction cost theory often ignores the costs of production: "what one firm can produce, another can produce equally well so the make-or-buy decision is not allowed to turn on differences in production costs" (p. 164).

Empirically, O'Farrell et al (1993) have argued that flexible production does not necessarily lead to some form of restructuring of production. Where restructuring does occur - as their sample of manufacturing plants in Scotland and South East England testifies – "the growth of business services is not a reflection of restructuring strategies predicted by the flexible firm model" (p.398). Instead, in common with Keeble et al (1992) and Bryson et al (1997) they find that it is due to an increase in demand.

In essence, therefore, whilst the neo-Galbriathian large firm fragmentation thesis is appealing there are reasons to doubt that this alone explains the rise in the UK's enterprise population.

2.3.ii. An 'Enterprise Culture'?

An alternative stimulus for the increase in the UK enterprise population is that there has been a cultural shift amongst the UK population towards enterprise. It may be suggested, as Bannock and Peacock (1989) argue, that people may have increasingly perceived that running a small business is a mainstream rather than a marginal social activity (Stanworth and Curran, 1976). Such a change in attitudes is often related to the doctrines and policies of the successive Thatcher administrations of the 1980s (Marquand, 1992; MacDonald and Coffield, 1991; Goss, 1991; Ritchie, 1991; and Keat, 1990) who, concerned with the perception that work was increasingly divorced from education (Callaghan's 'Ruskin Speech'[18]) and influenced by the promptings of the Black Papers[19] and the Centre for Policy Studies (Jones, 1989; Batteson, 1997), saw a direct role for the government in promoting small businesses. Indeed, throughout the 1980s there was a concerted effort to improve the entrepreneurial capacity of individuals. A variety of initiatives were put in place: the Training and Vocation Education Initiative (1982); Micro Enterprise in Schools (1985), and the Enterprise in Higher Education (1987) initiative[20]. The overall aim of such initiatives

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[18] The previous Labour Prime Minister, Jim Callaghan, had argued that the educational policies in the UK had failed to equip individuals with the necessary skills to fulfil a useful role in economic society.
[19] The Black Papers, set up in 1969, sought "a return to pre-comprehensive, pre-progressive forms and methods...and for new ways of exerting discipline in and over education" (Ball, 1990: 24).
[20] Besides this, there were other quasi-public initiatives such as the Prince's Youth Business Trust (now Prince's Trust), Shell *Live*WIRE, HeadStart, Project North East and the Youth Enterprise Scheme

as the Department of Trade and Industry or 'the Department for Enterprise', suggested was:

> Individuals need positive encouragement to participate actively in the challenge of creating prosperity, if only to combat the past anti-enterprise bias of British culture. DTI will seek to bring business into education and encourage education to consider the needs of business. It aims to expose more young people to the excitement of running a business and working in business." (DTI, 1988: 3)

Post-education initiatives were also implemented such as the Enterprise Allowance Scheme (1983-1991)[21], the Management Extension Scheme, the Enterprise Initiative (1988), Training for Enterprise, the Small Firms Loan Guarantee Scheme (1981). For a previous Secretary of State for Employment, these measures were seen as vital:

> "The Enterprise Allowance Scheme, in just under three years to July 1989, has enabled more than 450,000 people to set up their own business... Additionally, the Enterprise Initiative has considered more than 30,000 applications for consultancy support" (Lord Young of Graffham, 1992: 34).

Such policies have also carried on into the 1990s. The Labour government has also reformed training for young people and has part of their 'New Deal' (1998) offered young people the chance to set up their business. To aid this, they have offered young people one-to-one counselling or a short course and an allowance, for 6 months, of £400 (Jarvis, 1998)[22].

It is unclear, however, how effective such policies have been in changing people's attitudes to entrepreneurship. Partly, this is because for a society to coalesce around a shared group of norms or mores, it would appear important that they share some

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[21] This scheme offered unemployed individuals (more than 8 weeks), with access to £1,000 start-up capital, £40 per week for a year. It was replaced by the Business Start Up (1991-1995) which offered a varied allowance (£20-£90) for unemployed individuals for up to 66 weeks (Jarvis, 1998).

[22] The self-employment option is not available for older people who are long-term unemployed (Jarvis, 1998).

common understanding of what is understood by entrepreneurship. Unfortunately, entrepreneurship is not so easy to label (Ritchie, 1991; Burrows and Curran, 1991). As Kilby (1971) has argued, the entrepreneur may be just as difficult to describe as Milne's elusive Heffalump:

> The Heffalump is a large and rather important animal. He has been hunted by many individuals using various ingenious trapping devices, but no one so far has succeeded in capturing him. All who claim to have caught sight of him report that he is enormous, but they disagree on his particularities. Not having explored his current habitat with sufficient care, some hunters have used as bait their own favorite dishes and have then tried to persuade people that what they caught was a Heffalump. However, very few are convinced, and the search goes on" (p. 1).

These difficulties have, of course, not prevented various attempts to define the entrepreneur: as an arbitrageur (Kirzner, 1973, 1979, 1985; Casson, 1982); as an innovator (Schumpeter, 1939); or any of the other ten definitions of the entrepreneur identified by Herbert and Link (1982)[23]. Moreover, actual attempts to impart 'entrepreneurial' ideas, as MacDonald and Coffield (1991) vitriolically suggest, have often been little more than a misuse of the English language:

> We are not dealing with a tightly defined, agreed and unitary concept but with a farrago of 'hurrah' words like 'creativity', 'initiative' and 'leadership'. Too many of the definitions tend to be circular or consist of management tautologies, tricked out with the rhetoric of progressive education (p.29).

It may also be doubted if many of successive government's initiatives to support entrepreneurship have worked (Curran, 2000). Storey and Westhead (1996), for instance, have indicated that there is little or no link between much of the publicly provided support (e.g. Enterprise Allowance Scheme) and business performance. It

[23] The ten other roles are risk bearer under uncertainty, supplier of financial information, decision-maker, industrial leader, manager or superintendent, organiser or co-ordinator of economic resources, owner of an enterprise, employer of factors of production, contractor, and allocator of resources to alternative uses.

also may be doubted if the various public and quasi-public attempts to change attitudes towards entrepreneurship have been successful. For instance, Blanchflower and Oswald (1991) found that there had been no marked increase in the numbers of individuals in the 1980s who seriously considered self-employment as a career option. Curran and Blackburn (1990) also found no real evidence of a wholesale desire by young people to become entrepreneurs[24].

Another difficulty faced in disentangling any cultural shift towards the entrepreneurship is the problem of separating out cause from effect. Indeed, rather like the trait based theories of McClelland, (1971 [1961]) (*n*Achievement)[25], Hagan (1962) (entrepreneurship a result of child rearing practices) Kets de Vries (1977) (entrepreneurs as a deviant) or Rotter (1966) (locus of control), it is hard to see where culture starts and economic conditions begin: "when a change in entrepreneurial performance is observed, how can it be ascertained whether this has happened because of a shift in the supply of entrepreneurial effort or because of an improvement in the economic environment?" (Kilby, 1971: 22).

Nevertheless, as the OECD (1998) suggests, all other things equal, it is likely that a culture favourable to entrepreneurship is more likely to lead to entrepreneurial

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[24] Another example of the difficulties faced by public providers in implementing a loose and vague concept is the fiasco of 'Entrain'. This was an organisation created out of a partnership between youth support providers such as Cranfield University, Project North East, Scottish Enterprise Foundation, Fairbridge Youth Enterprise, Shell UK plc, Centre for Employment Initiatives, Young Enterprise and the Manpower Services Commission. Its mission was to deliver an entrepreneurial module for young people on the Youth Training Scheme from 1987. To achieve this the MSC awarded Entrain £1.5 million to set up 1000 schemes throughout the UK. Entrain, however, was never able to deliver on this. Partly this was due to the ambivalence of the MSC itself, the difficulties of setting up an organisation from scratch but also because 'entrepreneurship' was never coherently identified. Instead, it was simply a set of Arnoldian touchstones.

[25] "Low *n*Achievement is associated particularly with tropical climates which are hot, humid and show little temperature variation. High *n* Achievement is associated with moderate, dry climates which also tend to have poor soil, so that growing conditions for agriculture are not optimal" (McClelland quoted in Kilby, 1971: 9).

activity. Indeed, van Praag and van Ophem (1995) have argued that individuals are often constrained by opportunity whilst Gavron et al (2000) have suggested that there may have been some change either in the perceived opportunity costs of individuals[26] or an improvement in the support available to people. This may be due to an increased social acceptability of entrepreneurship, but it may also be due to their being more opportunities for potential entrepreneurs (pull factors) or because there are no other realistic choices (push factors).

2.3.iii.a. Pull factors

In terms of pull factors, there is little evidence to suggest that individuals have become more 'alert' to entrepreneurial opportunities or have been attracted to entrepreneurship by the prospect of monopoly gains (pure profit) (Kirzner, 1973). Indeed, as we shall see in the following chapter, not all individuals who set up, own or manage a business do so because of a desire to maximise their profits. Second, it is also clear that only a very few individuals enter self-employment principally because they possess 'entrepreneurial alertness' (Kirzner, 1985: 7). Instead, studies that have examined the influence of 'pull' factors have tended to suggest a number of other factors. For instance, older individuals, the more highly educated and males are often considered to be more likely to choose self-employment (Blanchflower and Meyer, 1994; Evans and Leighton, 1990; Rees and Shah, 1986). Blau (1987), meanwhile, has suggested that individual's opportunity costs change in response to changes in marginal rates of taxation whilst Evans and Jovanovic (1989) have suggested that

[26] Knight (1921) suggested that an individual's employment choice is dependent upon the income stream they anticipate. Hence, individuals may choose to enter self-employment when they expect an income value greater than their present income.

those with higher liquidity are more likely to enter self-employment. Robson (1996), on the other hand, has argued that if individuals have been pulled into venture creation this is a function of their rising personal wealth which, in turn, was due principally to the appreciation of house prices in the late 1980s. Johnson and Parker (1996) have found, contrary to Robson (1996), no such suggestion (rising house prices) in their analysis of the factors that led to increases in self-employment.

2.3.iii.b. Push Factors

If it is unclear what role any increased awareness of entrepreneurial opportunities played in the changes in the enterprise population, it is equally difficult to disentangle the contribution of push factors. At one level, there would seem to be a simple correlation: unemployment was endemic in the 1980s and, therefore, faced with lower entry thresholds (e.g. Enterprise Allowance Scheme) unemployed individuals turned increasingly to self-employment.

There is also empirical evidence to support such a suggestion. For example, the OECD (1986) has argued that in periods of high unemployment it is more likely that individuals will be tempted into self-employment because they would be able to realise a greater income than they could from state benefits. In support of this, Evans and Leighton (1990) US study showed "that the entry rate into self-employment is about twice as high for persons who are unemployed as for persons who are not unemployed" (p.321)[27].

[27] Moreover, they also found that the time spent unemployed was positively correlated with an individual's propensity towards self-employment, although such businesses were less likely to grow or provide the expected value for the individual that they hoped to realise.

In Great Britain evidence, to support this is inconclusive, perhaps because of the lack of any complete time series on self-employment data set (Storey and Johnson, 1990). Indeed, Hakim (1988) and Meager (1992) has argued that it is very difficult to appropriately model changes in the self-employment population. This is because, whilst it may be expected that self-employment may increase in periods of high unemployment (the inflow), it is also clear that those that are currently self-employed may exit (the outflows)[28]. Where studies have been conducted, Mason (1989) has shown that the increased unemployment of the 1980s led a quarter of individuals in his Hampshire sample to found new businesses. Storey (1982), similarly, found that between 25-50% of businesses were set up by workers who were unemployed or likely to be unemployed prior to starting a business. Hakim (1988, 1989) and, more latterly, Keeble (1994) have also found that unemployment often acts as a spur to self-employment. At the same time, however, Pickles and O'Farrell (1987), using Irish data, did not find that an adverse economic climate had a noticeable impact on 'pushing' the unemployed into self-employment.

In essence, therefore, whilst there has been a dramatic increase in the UK's enterprise population over the last twenty years, it is difficult to attribute this solely to any of the factors so far discussed. This is not to say that such developments are trivial. Indeed, as the next section on sectoral change in the UK illustrates, these explanations may also be linked to changes in the technology/innovatory propensities of (small)

[28] Binks and Jennings (1986) study of 100 new ventures in Nottingham perhaps exposes these difficulties. Although they find that unemployment was a large contributory factor in pushing half of their sample into self-employment, they also found that the availability of second hand machinery and premises offered such individuals easier access into self-employment. Similarly, Hamilton (1989) has argued that the relationship between unemployment and new venture creation may be kinked because, given a fixed supply of entrepreneurs and low but rising unemployment, new venture creation will increase as the unemployed switch into self-employment but, if unemployment continues to increase, new venture creation is likely to tail off.

enterprises as well as changes in demand. Before we turn to these explanations, we begin the second section with an examination of sectoral change in the UK economy.

2.4. Changes in the Sectoral Composition of UK Enterprises

Table 2:4 shows that there were changes to the sectoral distribution of the VAT registered businesses (1980-1993). Indexed from 1980, what Table 2:4 shows is that agriculture declined every year except 1989-1990. This is also true of catering and, more markedly, retailing. The stock of manufacturing businesses, on the other hand, has, like transportation, mirrored the national pattern (all sectors). Construction, displayed a more variable performance in the period 1980-1993: rapid increases in 1989-1990 before settling back down to a percentage change similar to transportation and manufacturing. What is abundantly clear from Table 2:4, though, is that finance sector and 'other' services doubled in size over the period.

Table 2:4: Index of Change in UK VAT Stock by Sector, 1980-93 (Base Year = 1980)

	All sectors	Agriculture	Production	Construction	Transport	Retail	Finance	Catering	Motor Trades	Other Services
1981	101.2	100.5	101.1	102.9	103.8	98.3	103.9	100.2	100.8	104.1
1982	103.6	101.5	103.7	106.6	108.9	98.7	107.6	101.2	103.3	110.3
1983	105.1	102.0	105.5	110.0	111.9	97.7	110.2	101.3	104.6	115.4
1984	107.8	102.0	108.9	116.2	115.3	97.4	115.3	102.5	106.3	122.3
1985	110.0	102.0	112.2	119.0	117.1	97.0	123.1	104.3	106.7	130.2
1986	111.4	101.4	114.7	118.6	117.8	96.3	131.5	104.4	107.1	138.1
1987	113.3	100.4	116.5	120.6	117.8	95.9	139.8	104.7	107.8	148.5
1988	116.3	99.4	118.6	126.5	118.1	95.5	147.9	106.2	109.7	161.3
1989	121.4	98.6	122.2	137.4	118.8	96.3	161.8	107.4	113.5	177.8
1990	127.3	98.1	125.9	148.8	121.7	96.5	183.5	108.6	117.6	197.5
1991	131.0	97.4	128.1	153.4	125.6	95.5	201.3	109.1	119.3	212.7
1992	124.8	96.0	123.5	137.4	127.0	90.1	197.9	101.5	113.4	205.6
1993	121.8	95.1	120.3	125.5	127.5	87.2	200.9	99.6	109.6	206.4

Source: DTI, 1998

As Table 2:5 shows, this has continued over the period 1994-2000. Whilst the number of agriculture, manufacturing, retailing and hotel and restaurant businesses have declined, it is clear that finance, business services and 'other services' have prospered.

Table 2:5: Index of Change in UK VAT Stock by Sector, 1994-2000 (Base Year = 1994 = 100)

	1994	1995	1996	1997	1998	1999	2000
All sectors	100	98.8	98.2	98.4	99.5	101.4	101.8
Agriculture, fishing	100	97.9	97.2	96.5	95.8	94.6	93.2
Manufacturing	100	98.5	97.3	96.8	96.1	94.8	92.0
Construction	100	94.5	91.3	88.9	87.9	88.4	87.6
Wholesale, retail	100	96.4	93.2	91.3	89.7	88.7	87.4
Hotels, restaurants	100	98.0	95.4	94.6	94.8	95.3	95.8
Transport	100	99.9	100.0	100.1	101.2	102.7	103.3
Finance	100	105.8	105.2	105.2	105.3	106.7	106.6
Business services	100	103.4	108.1	114.0	122.0	132.9	138.8
Education, health	100	105.2	104.7	99.9	96.3	97.3	99.0
Other services	100	101.9	104.1	105.5	108.3	110.5	111.6

Source: Small Business Service, 2000

In terms of the self-employed, comparable data is not available because of the discontinuities introduced by SIC(92). Over the period 1992-1997, however, it is clear from Table 2:6 that the number of self-employed individuals increased markedly in sectors such as 'other services', public good provision (public administration, education and health) and transport and communication whilst such sectors as manufacturing and agriculture have declined.

Table 2:6: Sectoral Change in Self-employment, 1992-97

	Self-employment		
	1992	1997	% change
All industries	3,218	3,322	3.2
Agriculture, forestry	295	250	-15.3
Energy and water	10[29]		
Manufacturing	357	244	-31.7
Construction	680	745	9.6
Distribution, hotels & restaurants	740	656	-11.4
Transport and communication	176	219	24.4
Banking, finance & insurance, etc.,	493	552	12.0
Public administration, education & health	243	310	27.6
Other services	224	346	54.5

Source: Moralee, 1998

2.4.i. Explanations of Sectoral Change

This increase in the number of service based businesses has not gone unnoticed. At one level, it has been suggested that this, as with the firm fragmentation thesis, is symptomatic of wider economic change. Hence, there has been much interest in whether or not we are now in the midst of a fifth Kondratieff cycle[30] or if we have moved from a 'Fordist' to a 'Post-Fordist' economic system. This thesis does not intend to rehearse this debate (see Amin, 1994) or the wholesale impact of technology. However, Keeble et al (1992) and Bryson et al (1997), for instance, have argued that businesses such as management consultancies and medical, health, and IT providers have grown because of systemic changes in demand amongst business to business services and consumer services for households and personal consumers.

[29] Sample size was too small for reliable estimate.

[30] Curran and Blackburn, (1991) have suggested that the fifth Kondratieff cycle is marked by the predominance of microelectronics, biotechnologies and information communication technologies. The four previous cycles, they suggest, were: iron, steam and cotton (1780s-1840s); steel, coal, and the railways (1850s-1890s); electricity, chemicals, the internal combustion machine and synthetic materials (1890s-1930s); and electrical and light engineering, petrochemicals, automotive manufacture (1940s-1980s).

Such businesses, particularly smaller-sized businesses, may have been able to exploit these sectors because there exist few opportunities for the development of economies of scale given that consumption is often at the point of purchase (Curran and Blackburn, 1991). Moreover, for Keeble et al (1992) and Bryson et al (1997) small service businesses have other, perhaps more intangible, competitive advantages: "for small business service firms the most important competitive advantages are 'personal attention to client needs', 'specialised expertise or products' and 'established reputation' (Bryson et al, 1997: 352).

In a similar vein, Acs et al (1991) have wondered if the development of numerical control technology has supplanted the mass production system first developed by Ford in Brook Park, Ohio. If so, Carlsson (1989) has suggested that we have seen a steady increase in the use of flexible manufacturing systems that use computers and robots. This may have led to the reduction in the minimum efficient scale:

> Subsequently, the cost of small-volume production of complex parts has been reduced much more than that of large-volume production of standardized products. Such systems represent an enormous advantage for small-scale production. (Acs et al, 1991: 308).

In turn, this may help explain the growth in the enterprise population both in the UK and elsewhere as small businesses are now potentially able to compete in sectors previously closed to them. This is exactly what Acs et al (1991) found: "in industries in which numerically controlled machines are extensively used, small firms have accounted for an increased share of subsequent sales in the market" (p. 317)[31].

[31] Acs et al (1991) counsel, though, that this should not simply be read as a reason for the increased domination of small businesses. The increased use of such machines may be a result – not a determination – of the firm size distribution as smaller businesses may find that this is the only way in which they can compete against larger firms.

Given this apparent reduction in the minimum efficient scale, there has been a renewed interest in investigating the innovatory propensity of small businesses. Much of the theoretical inspiration for this stems from Schumpeter (1939). He suggested - although there is the potential for arbitrage gains due to lumpiness of factors of production or imperfect knowledge[32] - that innovation may come from five sources: the creation of new products/the alteration of product quality; development of new methods of production; opening new markets; capturing new sources of supply; or instituting new organisational structures. The effect of such innovation is to lead to a process of 'creative destruction' whereby certain routinised forms of production are no longer tenable and innovation signals to others the possibility of monopoly gains (see: Kichhoff, 1994; Nelson and Winter, 1982).

> whenever a new production function has been set up successfully and the trade beholds the new thing done and its major problems solved, it becomes much easier for other people to do the same thing and even to improve upon it. In fact, they are driven to copying it if they can, and some people will do so forthwith (1964 [1939]: 75).

For Schumpeter (1971 [1934], 1939), such processes were historical rather than current events given that he saw that large businesses had increasingly annexed the innovatory capabilities of entrepreneurs. Nevertheless, as we have seen, there has been some sort of sea change in the fortunes of small businesses since the end of the 1970s. Acs and Audretsch (1987, 1988, 1990) have also suggested that the structure of innovatory activity is no longer regulated by size of business: "our results are unequivocal – industry innovation tends to decrease as the level of concentration rises" (Acs and Audretsch, 1988: 688). Such evidence, however, has not been

[32] "costs incident to change of occupation or to any shift from the production of one kind or quality of commodity to the production of another kind or quality, or to the exchange, by means of selling and buying, of one asset for another, or of the resistance to change some prices or of the difficulty of adapting long-time contracts or of persuading oneself or other people to act" (Schumpeter, 1939: 27).

forthcoming in terms of investigating innovation amongst UK high-technology businesses:

> much of the enthusiasm for the growth potential of high technology industries, common in the early 1980s, was misplaced, and that any industrial policy dependent on high technology small-firm growth to suffice the nation's economic needs is an extremely risk laden strategy (Oakey, 1991: 36).

Indeed, there is also little evidence to suggest that this convergence of a reduction of the minimum efficient scale, increased innovation by small businesses and changing demands are necessarily explanations for the development of the UK enterprise population. As an example of this, there is very little evidence either from Piore and Sabel (1984) or Sabel (1994) to suggest that there has been a wholesale development of flexible specialisation in the UK. UK businesses may have become more adaptable (economies of scope rather than scale), but there is little concrete evidence to suggest that there high-technology or other such industries have replaced the old Marshallian nodes of Sheffield (steel) and Lancashire (cotton). For example, Turok (1993) in his examination of electronic producers in Scotland ('Silicon Glen'), found only scant evidence of any strong local linkages either between indigenous or foreign owned manufacturers and local suppliers. Indeed, if anything his evidence would tend to confirm the fragmentation thesis outlined above[33].

Again, though, it would be simplistic to suggest that changes in the sectoral composition of UK enterprises were not symptomatic of wider macro-economic

[33] Moreover, both Pollert (1988) and Curry (1992) have questioned the optimism of flexible specialisation holding that it is "an idealistic gloss" (Curry: 1992: 118) preventing a deeper understanding of the economic logic of late capitalism. Murray (1987) and Amin (1989) have also argued that the craft system espoused by Piore and Sabel (1984) is confined to particular industries and even here the exploitation of women, the semi-skilled and the non-skilled within a cottage industry is not uncommon.

change. We shall see, however, in the final part of this chapter, that the growth of small businesses is spatially asymmetric.

2.5. Geographical Changes

The geographic unevenness of the changes in the small business population is a well recognised phenomenon. Broadly speaking, as Bryson et al (1993) and Keeble and Walker (1994) suggest, the South East of England (Government Office Regions: London, Eastern England, the South East) is where the majority of the development has occurred in the last twenty years. In some respects, this is borne out in Table 2:7 which shows the stock of VAT registered businesses and their relative change over 1994-2000[34]. Two features of Table 2:7 are worth particular consideration. First, it is clear that the South East, London, and the Eastern region, respectively, have the highest number of VAT registered businesses. It is also clear that Wales, Northern Ireland and the North East of England, respectively, have the lowest number of VAT registered businesses. Indeed, the North East has approximately six times fewer businesses than the South East or London.

The second feature of Table 2:7 is that the South East, London and the Eastern region all emerged from the recession of the early 1990s far faster than all other regions

[34] Ideally, it would have been preferable to have longer run data. Due to SIC discontinuities and changing boundary definitions, this data was not available from the Small Business Service.

Table 2:7: Index of Change in UK VAT stock by Government Office Region, 1994-2000 (Base Year = 1994)

	Stock at start-year							Index (1994 = 100)						
	1994	1995	1996	1997	1998	1999	2000	1994	1995	1996	1997	1998	1999	2000
United Kingdom	1,629,235	1,609,335	1,600,065	1,603,200	1,621,360	1,651,635	1,658,125	100	98.8	98.2	98.4	99.5	101.4	101.8
North East	44,120	43,425	42,455	42,035	41,815	41,995	41,930	100	98.4	96.2	95.3	94.8	95.2	95.0
North West	140,245	137,530	135,475	134,740	135,105	160,060	160,935	100	98.1	96.6	96.1	96.3	114.1	114.8
Yorks. and the Humberside	122,410	120,460	118,350	117,665	117,240	117,710	117,050	100	98.4	96.7	96.1	95.8	96.2	95.6
East Midlands	111,795	110,755	110,005	109,485	109,995	111,195	110,970	100	99.1	98.4	97.9	98.4	99.5	99.3
West Midlands	138,145	136,595	135,215	134,840	134,595	136,290	136,490	100	98.9	97.9	97.6	97.4	98.7	98.8
Eastern	159,490	157,450	156,930	157,470	159,995	162,715	163,275	100	98.7	98.4	98.7	100.3	102.0	102.4
London	242,175	241,465	245,055	249,790	258,660	269,955	274,525	100	99.7	101.2	103.1	106.8	111.5	113.4
South East	243,370	241,055	240,440	241,815	246,115	253,045	255,460	100	99.0	98.8	99.4	101.1	104.0	105.0
South West	152,870	150,065	147,560	147,085	148,015	149,715	149,800	100	98.2	96.5	96.2	96.8	97.9	98.0
Wales	79,465	77,200	76,060	75,415	75,335	75,230	74,485	100	97.1	95.7	94.9	94.8	94.7	93.7
Scotland	119,825	118,610	117,785	117,525	118,265	119,160	118,670	100	99.0	98.3	98.1	98.7	99.4	99.0
Northern Ireland	52,665	52,380	52,875	53,510	53,755	54,615	54,555	100	99.5	100.4	101.6	102.1	103.7	103.6

Source: Small Business Service, 2000

except Northern Ireland. It is also clear that both Wales and the North East of England have suffered the largest drop in their VAT stock over the period 1994-2000.

2.5.i. The Least Entrepreneurial Region of the UK

If we presume that VAT is a proxy measure of entrepreneurship, what Table 2:7 hints at but does not show, is that the North East or the Northern Region[35] is, arguably, the least entrepreneurial region of the UK. This, again, is not a new suggestion. Storey (1982) showed, in creating an index of regional entrepreneurship, that the Northern region, along with Wales and Northern Ireland, ranked at the bottom of this index. Brought up to date, we can see from Tables 2:8 and 2:9 that little has changed in the intervening period. Consider, for example, Table 2:8 which presents for the 44 English Counties[36], Scotland and Wales the registration rates (sorted by percentage in 1998) per 10,000 adults in any particular area. This shows that over the period 1994-1998 that there are distinct differences between the registration rates found in the South East of England and those found in the Northern Region. Indeed, the areas of London and parts of the South East (Buckinghamshire, Berkshire, Surrey) and Eastern Region of England (Hertfordshire) have new firm formation rates that are three to four times that of the Northern Region. Moreover, it is also evident that the counties of the Northern region have consistently had the lowest new firm formation rates of VAT registration between 1994-98.

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[35] This thesis includes Cumbria within the Northern region of England. This is in line with previous interpretations of the region. The government, however, currently situates Cumbria within the North West region.

[36] The administrative map of the UK has been reorganised in the last twenty years. The data presented here is based upon the former county structure of England.

Table 2:8: VAT Registration Rates Per 10,000 of the Adult Population for the UK, 1994-1998

	1994		1995		1996		1997		1998	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
London	57.8	2	58.1	1	60.6	1	66.1	1	70.2	1
Buckinghamshire	59.7	1	55.9	2	54.2	3	59.7	3	61.5	2
Berkshire	52.0	4	51.9	4	52.9	4	60.9	2	58.2	3
Hertfordshire	47.7	5	47.0	5	48.3	5	57.9	5	56.8	4
Surrey	54.5	3	52.6	3	55.4	2	58.8	4	56.6	5
Northamptonshire	39.0	12	39.5	8	41.3	7	48.0	6	48.2	6
West Sussex	39.8	10	38.3	11	40.1	9	44.9	8	45.4	7
Oxfordshire	42.8	6	43.9	6	44.5	6	46.1	7	45.3	8
Wiltshire	40.2	9	34.8	21	40.2	8	41.0	16	45.0	9
Gloucestershire	41.2	7	37.6	13	39.5	11	44.3	9	45.0	9
East Sussex	38.1	13	37.2	15	38.6	13	43.7	10	43.6	11
Avon	37.4	16	34.0	23	37.7	15	41.7	14	43.5	12
Warwickshire	37.0	19	39.9	7	39.8	10	37.8	22	43.5	12
Hampshire	38.1	13	36.9	16	37.3	17	41.2	15	42.8	14
Essex	37.1	18	36.6	17	37.0	18	42.6	11	41.8	15
Cambridgeshire	36.4	20	38.0	12	37.6	16	42.3	13	41.8	15
Bedfordshire	40.3	8	38.6	9	39.3	12	42.6	11	41.0	17
Cheshire	34.7	24	34.4	22	36.3	20	39.2	20	40.0	18
Shropshire	34.7	24	35.1	19	34.7	24	37.9	21	39.8	19
Leicestershire	37.2	17	37.3	14	35.9	21	37.7	23	39.7	20
Kent	35.9	21	34.0	23	34.4	25	39.7	19	39.2	21
Dorset	35.7	22	33.6	26	36.6	19	40.0	18	39.1	22
Somerset	35.2	23	34.9	20	33.9	26	37.3	24	37.6	23
Greater Manchester	32.9	28	32.0	27	31.8	28	35.6	28	36.4	24
Suffolk	34.3	26	36.2	18	35.8	22	36.2	26	35.8	25
North Yorkshire	37.8	15	33.7	25	34.9	23	37.0	25	34.8	26
Hereford and Worcester	39.3	11	38.4	10	37.8	14	40.6	17	34.5	27
Devon	33.5	27	30.2	29	31.4	29	35.2	30	34.3	28
Staffordshire	31.3	30	28.9	33	30.2	31	30.3	35	33.7	29
Lancashire	30.8	33	29.2	32	30.4	30	31.0	34	33.5	30
Lincolnshire	32.5	29	31.8	28	31.9	27	35.7	27	33.5	30
West Yorkshire	29.8	35	29.5	31	30.1	32	32.0	32	32.7	32
Cornwall	31.2	31	28.9	33	29.0	35	35.5	29	32.6	33
West Midlands	30.1	34	28.8	35	28.6	37	29.3	39	32.6	33
Derbyshire	29.5	36	28.3	36	29.7	34	32.0	32	32.3	35
Nottinghamshire	29.2	37	28.3	36	29.0	35	30.1	36	30.2	36
Norfolk	31.0	32	30.2	29	29.9	33	33.5	31	29.9	37
Cumbria	28.8	38	26.9	39	26.0	41	29.4	38	29.7	38
Scotland	27.3	40	27.0	38	27.2	38	29.6	37	28.5	39
Wales	27.1	41	25.8	41	26.3	40	26.9	40	26.4	40
Humberside	27.7	39	26.2	40	26.7	39	26.4	41	26.2	41
Northumberland	23.3	43	25.3	42	22.1	43	25.3	42	24.7	42
South Yorkshire	24.0	42	22.8	43	22.9	42	23.9	43	24.0	43
Durham	22.4	44	20.3	44	20.6	44	20.0	45	21.6	44
Tyne and Wear	21.0	45	19.3	45	19.8	45	20.3	44	19.6	45
Cleveland	21.0	45	17.0	46	17.4	46	17.2	46	18.6	46

Source: Small Business Statistics, 1999

Further evidence of the lack of entrepreneurialism in the Northern Region is provided in Table 2:9. This table shows the rate of new firm formations for the 'top' and 'bottom' 15 local authorities in the UK (DTI, 1999). From this we can see that the none of the Northern region's local authorities were in the 'top' 15 but 10 of them were in the 'bottom' 15.

Table 2:9: New Business Registrations in 1998 per 10,000 Resident Adults in Great Britain's 413 Local Authorities, 'top' and 'bottom' 15, 1997

Top 15		Bottom 15	
Camden	154	**Wansbeck**	12
Islington	106	**Redcar & Cleveland**	14
Kensington & Chelsea	100	**S. Tyneside**	15
Hammersmith & Fulham	97	**Easington**	15
Tower Hamlets	89	**Barrow in Furness**	16
Hackney	85	**Blyth Valley**	16
Wellingborough	85	Merthyr Tydfil	16
St. Albans	77	Knowsley	17
South Bucks	75	Blaenau Gwent	17
Windsor & Maidenhead	72	Inverclyde	17
Richmond	71	West Dumbartonshire	17
Surrey Heath	68	**Middlesbrough**	17
Barnet	66	**Hartlepool**	18
Brent	66	**Derwentside**	19
Elmbridge	65	**Sedgefield**	19

Source: DTI: 1999

Another spatial dichotomy is apparent when we consider VAT deregistration rates as a percentage of the stock of VAT businesses for these areas (Table 2:10). Differences here are less stark. Nonetheless, it is apparent that urban areas such as Cleveland and Tyne and Wear suffer higher rates of business mortality than is apparent in rural areas such Northumberland and Cumbria and in semi rural areas such as Durham[37].

[37] Although an imperfect indicator of rurality (see McLaughlin (1986) and Cloke et al (1997) for a discussion of rural indicators), argriculture and fishing made up 29.1% and 25.5 and 13.5% of the stock of VAT registered businesses (1997) in Cumbria, Northumberland and Durham respectively. This compares with 1.3% in Tyne and Wear, 4.2% in Cleveland and 9.8% in the UK (Source: DTI, 1998a).

VAT registration and deregistration activity are not the only indicators of the poor level of entrepreneurial activity within the Northern region. For example, as a percentage of gross value added, research and development intensity amongst North East business lags behind that of the UK average[38] (DTI, 1998b). Charles and Benneworth (1996) have also indicated that only 0.4% of the region's workforce were employed in research and development activities with half of these being located in higher education institutions whilst other evidence suggests that the North East's educational attainment has also lagged behind that of the UK[39]. Unemployment in the Northern region may also be thought of as being structural: the region's (North East) ILO unemployment rate of 9.8% was the highest of any region of Great Britain whilst the seasonally adjusted employment rate of 65.9% was the lowest of an UK region (winter 1998-1999) (Good, 1999)[40]. North East workers average gross earnings was less (£339) than the British average (£384) whilst Gudgin (1996) has shown that the region has lost 10.6% of its total employment over the period 1979-1995 whilst for the rest of the UK the total employment level only reduced by 3.7%.

In terms of region's businesses, Keeble (1998) found that employment growth was less than that of the South East and that its businesses were less likely to export, to be engaged in research and development and to have fewer numbers of serious competitors[41].

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[38] In 1994, the UK average R&D was 6.1% of gross value added. In 1997, it was 6.7%. Comparable figures for the North East were 2.1% and 3.4% (1994 and 1997 respectively).

[39] Compared to the UK, the North East has consistently had a lower percentage of its workforce with vocational, professional, management or academic qualifications. For example, in Spring 1998, 25% of the UK workforce had such a qualification whilst it was 20% in the North East. (Source: DTI, 1998b)

[40] This is a persistent trend. The North East has had the highest rate of unemployment of all regions for the last ten years (Good, 1999)

[41] Keeble (2000) conflates the Northern Region with Scotland and Wales so some care must be taken with these inferences.

Table 2:10: VAT Deregistration Rates as a Percentage of Stock of Business for the UK, 1994-1998

	1994		1995		1996		1997		1998	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Cumbria	8.6	1	8.0	1	7.6	1	7.5	1	7.0	1
Northumberland	8.6	1	9.2	5	8.3	2	8.1	2	7.2	2
North Yorkshire	8.9	3	9.0	3	8.4	3	8.2	4	7.5	3
Shropshire	9.7	5	8.9	2	8.9	6	8.7	7	7.9	4
Somerset	10.4	12	9.2	5	8.4	3	8.1	2	8.0	5
Lincolnshire	9.4	4	9.2	5	9.0	8	9.3	11	8.2	6
Cornwall	9.9	6	9.7	10	8.4	3	8.5	6	8.3	7
Wales	10.8	15	9.2	5	8.9	6	8.4	5	8.3	7
Oxfordshire	11.2	23	10.1	14	9.5	12	9.3	11	8.4	9
Hereford and Worcester	10.1	8	10.0	12	9.0	8	8.7	7	8.6	10
Norfolk	9.9	6	10.0	12	9.6	14	9.2	9	8.7	11
Warwickshire	10.1	8	10.1	14	10.0	18	9.8	15	8.7	11
Wiltshire	11.7	28	10.7	22	10.0	18	10.1	22	8.7	11
Buckinghamshire	11.9	29	11.2	33	10.2	25	10.2	25	8.7	11
Surrey	12.0	31	11.0	31	10.6	32	10.1	22	8.7	11
Durham	12.9	44	12.9	46	11.3	42	11.0	35	8.7	11
Suffolk	10.2	11	9.1	4	9.5	12	9.2	9	9.1	17
Humberside	10.8	15	10.9	25	10.1	21	9.7	14	9.1	17
Cheshire	11.4	25	10.5	20	10.0	18	10.0	20	9.1	17
Cambridgeshire	10.1	8	9.3	9	9.2	10	9.5	13	9.2	20
Scotland	10.5	13	10.1	14	9.8	16	9.8	15	9.2	20
Derbyshire	10.8	15	10.3	18	10.1	21	10.0	20	9.2	20
Hampshire	12.3	37	10.9	25	10.7	33	11.0	35	9.2	20
Staffordshire	10.7	14	10.2	17	9.8	16	10.1	22	9.3	24
Gloucestershire	10.9	18	9.8	11	9.6	14	9.9	18	9.3	24
Lancashire	11.5	27	11.6	37	10.5	30	10.2	25	9.4	26
Bedfordshire	12.3	37	11.2	33	10.4	27	10.6	32	9.4	26
West Sussex	12.3	37	10.9	25	11.1	38	10.6	32	9.6	28
Leicestershire	10.9	18	10.9	25	10.2	25	10.3	27	9.7	29
Devon	11.0	20	10.5	20	9.4	11	9.8	15	9.7	29
Hertfordshire	12.2	35	11.4	36	10.1	21	10.4	29	9.7	29
Berkshire	12.0	31	11.7	38	11.2	41	11.2	38	9.8	32
Kent	12.7	41	12.0	41	11.0	36	10.6	32	9.8	32
Avon	12.0	31	10.9	25	11.0	36	10.3	27	10.1	34
Essex	12.3	37	11.1	32	10.4	27	10.4	29	10.1	34
Northamptonshire	11.1	21	10.4	19	10.4	27	10.5	31	10.3	36
Dorset	11.4	25	10.9	25	10.5	30	11.1	37	10.4	37
West Yorkshire	12.0	31	11.9	39	10.8	34	11.4	41	10.4	37
Tyne and Wear	12.7	41	12.7	45	11.7	43	11.7	44	10.7	39
London	13.7	46	12.0	41	12.0	46	11.3	40	11.0	40
Cleveland	11.2	23	10.8	24	10.1	21	9.9	18	11.1	41
East Sussex	12.7	41	11.9	39	11.1	38	11.6	42	11.1	41
Nottinghamshire	11.0	20	10.7	22	12.0	45	11.2	38	11.2	43
South Yorkshire	11.9	29	11.3	35	10.8	34	11.6	42	11.2	43
West Midlands	12.2	35	12.0	41	11.1	38	11.7	44	11.7	45
Greater Manchester	13.3	45	12.4	44	11.9	44	12.4	46	12.0	46

Source: Small Business Statistics, 1999

2.5.ii. Explanations for the Northern Region's Malaise

There are a variety of possible explanations for the paucity of the entrepreneurship in the region. Amin and Tomaney (1991) have, for instance, argued that part of the 'problem' may be cultural:

> The strongly working-class culture of the region, resulting from the domination of the industrial structure by large firms and heavy industry and inherited Labourist and collectivist political traditions, is seen as a major cultural and social obstacle to an entrepreneurial solution for the region's problems. (p. 479)

Another potential difficulty for the region has been its disastrous reliance upon foreign direct investment by companies such as Fijitsu and Siemens. The closure of these companies, in addition to Pringle, Electrolux and Grove Cranes, led to the loss of 3,400 jobs (Pike, 1999). The earlier closure of the Swan Hunter shipyard (Tomaney et al, 1999) also saw the loss of 2,200 jobs. The consequences of these closures is that "the local economy suffered from the negative multipliers generated by irregular and insecure work and reduced incomes" (Tomaney et al, 1999: 410). Moreover, Richardson et al (2000) is not sure that some of their replacements – call centres – have added to the strength of the regional economy, particularly as many of the employment opportunities are part-time.

It is also clear that the region cannot be suggested that the region is an example of 'flexible specialisation' (Piore and Sable, 1984). To illustrate this, Amin and Tomaney (1991) investigated the range of suppliers used by Nissan in Sunderland. They found that of the 177 UK suppliers used by Nissan, only 17 of them were located in the region. Similarly, Storey and Strange (1993) have also shown, in their

study of entrepreneurship in the former county of Cleveland, that many of the new firms formed in the 1980s were marginal businesses[42].

Another aspect that may explain the paucity of entrepreneurship in the Northern region is that lack of appropriate, adaptive and integrated network support. Indeed, Bennett and McCoshan (1993) have argued that the failure to provide such support in terms of education, training and enterprise support may explain why particular regions of the UK have failed to become more entrepreneurial. Looking at the evidence, it would appear that the Northern region has fared badly out of publicly provided support. Storey (1982) showed that, under a national framework of government support, regions such as the Northern region were not taking up support. Instead, "the biggest take up rates are in the areas which are currently most prosperous" (p. 195). Similarly, Mason and Harrison (1986) showed, for the Loan Guarantee Scheme, the Business Expansion Scheme, the Small Engineering Firms Investment Scheme and the Enterprise Allowance Scheme, that the Northern region had amongst the lowest rates of take up of such support.

This situation may, of course, have changed in the 1990s. This is an issue that we return to in later chapters of this thesis.

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[42] Such evidence is not new. Irwin and Grayson (1980) suggested that "a number of specific barriers to the formation of new business in regions such as the North-East have been identified such as lack of entrepreneurial tradition, having a limited number of firms in a limited number of industries; being less information-rich; the preponderance of company headquarters in the South of England; a smaller reservoir of trained people; a lack of local markets for goods and the lack of a parochial economy where firms can feed off one another as, for instance, in the West Midlands; an over-large public sector; and less enterprise". (p. 48)

2.6. Conclusions

This chapter has both attempted to describe and elucidate the growth of the UK enterprise population. Having once described the difficulties of estimating these changes, we have seen that there have been increases in the numbers of VAT registered businesses and self-employed individuals, particularly in service based sectors. These changes both in growth and in composition may have something to do with changes in the business cycle, vertical disintegration, the growth of the 'enterprise culture' or changes in the relative economic position of smaller-sized enterprises (changes in demand, technological/innovatory propensities). This thesis has not sought to suggest that any one of these explanations is pre-eminent or that such explanations should be treated as mutually exclusive.

We have, however, seen evidence to suggest that some of these explanations may be more useful. For instance, it is unclear how important any development of an 'enterprise culture' has been in explaining the growth in the number of smaller sized enterprises. What seems more appropriate is to consider that large firms may have seen advantages in dampening down their transaction costs. This may be due, if only in part, to a reduction in the minimum efficient scale, technological change, increased innovation and/or changes in demand. It also may, of course, be that any changes in the behaviour of large firms or smaller sized businesses results from these changes rather than causes these changes. Either way, it is extremely difficult to disentangle cause from effect.

What is abundantly clear, though, from this chapter is that the Northern region of England is arguably the least entrepreneurial area of the UK. Measured in terms of VAT registration and deregistration rates, it would seem to have disproportionately low levels of new business start-ups and high levels of failures. This, of course, is only a simplistic measure of 'entrepreneurship' given that VAT registration and deregistration does not necessarily equate to firm birth or death (Gibb, 2000).

Nevertheless, the Northern region would also appear to be economically deprived across other measures: high rates of unemployment; poor educational attainment levels; an indifferent research and development infrastructure; and a stunted business population.

It is unlikely that there is any single solution to these problems. However, we have seen indications that the support network is important to the economic well being of small businesses. This is taken up in later chapters which discuss more fully a range of support available to small businesses. The following chapter, however, considers the importance of small businesses to employment generation and which types of small businesses are most likely to provide employment.

Chapter 3: Assessing The Employment Contribution Of Small Businesses

3.1. Introduction

Three events in 1979 may have precipitated the rise in interest in small businesses. The first was the election of Margaret Thatcher to office. Her election brought a new found ideological vigour:

> I came to office with one deliberate intent: to change Britain from a dependent to a self-reliant society – from a give-it-to-me to a do-it yourself nation. A get-up-and-go, instead of a sit-back-and wait-for-it Britain. This means creating a new culture – an enterprise culture – which accords a new status to the entrepreneur and offers him the rewards to match; which breeds a new generation of men and women create jobs for others instead of waiting for others to create jobs for them. (Thatcher, 1984: 11)

The second event was that 1979 saw unemployment first break the 1.5 million barrier (Employment Gazette, December 1985, Table 2.2) before its rise to 3.2m in 1986 (Employment Gazette, December 1989, Table 2.2). The third event that may have precipitated a change in attitudes to small businesses was Birch (1979). Birch suggested that the majority of new jobs created in the US were due to businesses with under twenty employees.

This chapter will consider the contribution of small businesses to employment generation. We shall see that there has been a considerable body of work that has sought to validate Birch's findings. Similar work is also available for the UK

although up to now, such evidence has not been brought together (Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993). In discussing these studies, therefore, we shall see for the first time that the smallest sized businesses have made the largest net contribution to employment change over the period 1971-1991.

In the second part of the chapter, however, we shall point to evidence that argues that there is little correlation between increases in the quantity of the enterprise population and increases in employment growth. Partly, this is due to statistical doubts about Gallagher et al's work. It is also evident, even if such enterprises are the most likely source of employment growth, that small businesses are the most likely to perish. A further issue is that many researchers have questioned if the motivation of owner-managers in small businesses is towards growth (e.g. Stanworth and Curran, 1973, 1976). Finally, we shall also see evidence to suggest that it is fast growth businesses that are the most likely source of employment generation (e.g. Storey, 1985). Having considered this evidence, the chapter will conclude by suggesting that it is appropriate to consider that the focus of this thesis should be on existing businesses rather than new start-ups.

Before we turn to examining this evidence, it may be worthwhile considering briefly if small businesses are the most appropriate vehicle for increasing employment.

3.2. The Role of Small Businesses in Creating Employment

The OECD (1998) has suggested that there are a number of specific benefits to a society in encouraging entrepreneurship. The first of these is that it may provide new forms of innovatory products. Entrepreneurship may also have a role in releasing individuals who may otherwise find it difficult to pursue gainful employment. In particular, it may be thought that women and minority groups see advantages – that would be otherwise denied to them – in setting up a new venture. A good example of this is the Asian community who, faced with cultural, linguistic and racial barriers, have sought to enter self-employment (Ram, 1992; and Phizacklea and Ram, 1996).

The third main advantage of entrepreneurship is that it is seen as a solution to unemployment, particularly in economically disadvantaged areas. Nevertheless, we have to be clear about what this means in practice. For a start, as Penrose (1959) suggested, size is a by-product of growth rather than central to growth itself. As such, it is not surprising – as we shall see later on in the chapter – that very few entrepreneurs see their primary purpose as expanding employment opportunities. For them, it is much more likely that they will see employment as a 'cost' (Atkinson and Meager, 1994: 51) and that their interest, where it is economic, is much more likely to centre around the profit/sales growth of the business (Barkham et al, 1996).

Employment generation is, therefore, more likely to be a public rather than a private sector impulse. In fact, Stanworth and Gray (1991) have argued that "the primary practical justification for small firm policies throughout Europe is their role in employment creation" (p. 18). With this recognition, consideration also has to be

given to the types of employment opportunities provided by small businesses. Storey (1998) has suggested that small businesses are most likely to employ the young, the old and the unskilled. On the other hand, employment opportunities in small businesses are often likely to be lower paid than comparable opportunities in larger firms (Brown and Medoff, 1989) and have fewer associated benefits (Hirschberg, 1999). Similar conclusions are also reached by Evans and Leighton (1988) who, in addition, find that employment in smaller businesses is more likely to be transitory, part-time and have a disproportionate number of women, ethnic minorities and young people.

Notwithstanding these doubts surrounding the quality of employment in small businesses, it may be judged that for society there remain distinct benefits in increasing employment, particularly when the alternative is passivity and dependence (OECD, 1998). The next section considers the contribution to employment of businesses.

3.3. Accounting for the Contribution of Small Businesses to Employment Generation

The initial impetus behind much of the interest in small businesses stems from Birch's (1979) examination of the employment contribution of the small business. This study attempted "to look beneath the surface, to see what is going on at the 'atomic level'" (Birch, 1979: 3), by analysing the relative contribution of firms to the job generation process. This was done by performing a components of change analysis on 5.6

million US establishments derived from the Dun and Bradstreet database[43]. Birch looked at the rate of firm 'births', their rate of 'death', expansions and contractions by existing firms, and movements into and out of a particular US state. His findings were startling. Birch claimed, for example, that 81.5% of all new jobs were created by businesses with fewer than 100 employees. Even more remarkably, for the four time points of the study (1969, 1972, 1974, and 1976), Birch claimed that small businesses of fewer than 20 employees generated 66% of all the new jobs in the US whilst, by comparison, large firms of more than 500 employees contributed only 13.3% of new jobs. This was despite the acknowledged fact that small businesses are much more likely to 'die' than larger firms[44].

In general, a number of other studies suggested similar findings. Examples of these, in an international context, include a study of Swedish firms (Davidsson et al, 1998), Picot and Dupuy's (1998) Canadian study, Kirchhoff and Greene's (1998) study of US job creation, Wagner's (1998) study of firm size and job creation in Germany, and Broersma and Gautier's (1997) study of Dutch manufacturing.

Broadly similar results were also found in a number of regional manufacturing studies within the UK (e.g. Fothergill and Gudgin, 1979; Scottish Office, 1980; Hamilton, et al, 1981; Cross, 1981; and Healey and Clark, 1985). For example, in terms of the East Midlands, for example, Fothergill and Gudgin (1979) found that wholly new

[43] Birch (1979) claimed that this represented approximately 82% of all private sector employment.
[44] In Birch's study businesses with 0-20 employees had a 62.7% chance of 'dying' as compared with 33.3% for businesses with 500 or more employees.

manufacturing establishments over the period 1968-1976 added 4% to the base year employment.

At a national level there have also been a series of studies of the job generation process within the UK (Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993)[45]. Each of these studies, which are based upon the Dun and Bradstreet credit rating database of businesses, covers specific periods. The first study (Gallagher and Stewart, 1986a) relates to the period between 1971 and 1981 with later studies covering the job generation process in two yearly intervals (1982-84, 1985-87, 1987-89 and 1989-91). As time has progressed, these studies have included greater numbers of enterprises, not only to account for the rising enterprise population but also as a result of increased coverage by the Dun and Bradstreet database[46]. The quality of the data has also improved by removing clerical errors (Gallagher and Stewart, 1986b) and attempting to better verify the data[47]. Additionally, over time, these studies have sought to remove the problem of ranged employment data so that by the time of the 1987-89 study (Daly et al, 1991), there was access to specific employment data.

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[45] Macey (1982) also conducted an analysis of employment change in UK manufacturing for the years 1972-1975. He found that the smallest number of firms (11-20 employees) exhibited net employment growth whilst larger sized firms experienced a net loss of employment. However, it must be remembered that this study excluded the very smallest size firms (which make up the largest proportion of UK businesses) and that it made no real distinction between small establishments and firms. In other words, it may be that at least part of the employment growth Macey witnessed was due to the expansion of small establishments that were branches of larger firms. A similar study of manufacturing businesses, based on 1975-1983 data from the Annual Census of Production, was also conducted by Johnson (1989).

[46] So, in 1971, the database covered 180,000 businesses, 200,000 businesses in 1981 (Gallagher and Stewart, 1986a), 360,000 businesses in 1984 (Doyle and Gallagher, 1987), 591,000 businesses in 1985 (Gallagher et al, 1990), 628,000 in 1987 (Daly et al, 1991) and 947,000 in 1989 (Gallagher, 1993).

[47] Meakin et al, (1985) sent a postal questionnaire to 1,000 randomly selected firms in the Dun and Bradstreet database. They found that in 90% of firms that employment data was correct with only 8% being wrongly ascribed (2% could not be contacted).

These five studies, although they use much the same methodology, are not immediately comparable. For instance, in the first two studies (Gallagher and Stewart, 1986a; and Doyle and Gallagher, 1987), the 1-19 size class was used. In later studies, what is reported is either the results for 5-19 employees (Gallagher et al, 1990) or actual, rather than ranged, employment data (i.e. 1-4, 5-9, 10-19, 1,000-4,999, 5,000-9,999 and 10,000+ employees) (Daly et al, 1991; and Gallagher, 1993).

In order to compare these studies, three judgements were made. First, it was decided to use the original employment size classification of 1-19 employees and, at the other extreme, 1000+ employees. This was largely because the original two studies present no alternative to these classifications (Gallagher and Stewart, 1986a; and Doyle and Gallagher, 1987). Second, for the study that used the 5-19 employees (Gallagher et al, 1990), it was simply assumed that this size class was approximate to the original 1-19 employee size class[48]. Third, to resolve the issue of actual rather than ranged data, actual data was aggregated into the original size classes (e.g. 1-4, 5-9, 10-19 for 1-19 size class).

Table 3:1 presents the composite results of these five studies. It shows, in measuring the number of jobs created through births and expansions and the number of jobs lost through deaths and contractions, that the smallest size category (1-19 employees) appears to have created the most jobs and, at the same time, lost the most jobs in each of the five time periods[49]. This impression is confirmed in Table 3:2 which presents

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[48] The effect of this is probably conservative as employment turbulence is greater the closer we get to zero employment levels.

[49] 'Births' relate to entry on the Dun and Bradstreet database. This is checked (Gallagher et al, 1990) to ensure that they are not the product of mergers or acquisitions. Similarly, 'deaths' equate to being no longer on the register whilst contractions and expansions relate to the change in employment within a particular establishment.

the percentage impact that a particular size category (number of employees) has on the sum total of births, deaths, contractions and expansions in a particular period. Hence, in Table 3:1, the size category 1-19 employees created 1,460,000 jobs through new firm births over the period of 1971-81 which translates into 41% (Table 3:2) of the sum total 3,560,000. Equally, for the period 1985-87, this size category saw the highest leakage of jobs, both in raw terms (1,031,000) and percentage terms (60.05%), as a result of firm deaths. Tables 3:1 and 3:2 also show much the same results when firm contractions and expansions are included. Here, with the exception of contractions over the period 1971-81 and 1982-84, these results would seem to confirm that 1-19 employee sized firms have experienced the greatest degree of turbulence throughout the periods of the studies.

However, when this data is brought together in a components of change analysis ((births + expansions) – (deaths + contractions) = net change), it is clear from Table 3:1 that 1-19 employee sized firms have been responsible for much of the net generation of jobs. For example, in the period 1971-1981, the net job generation of the 1-19 employee size class was 1,100,000. This compares with the 500-99 employee size class which lost 310,000 jobs or the 1000+ size class which lost 772,000 jobs. A similar finding is also evident from later studies that use actual rather than ranged data. In the 1989-1991 study (Gallagher, 1993), Table 3:1 reports that the net job generation of the 1-19 employment size class was 368,000 whilst businesses with more than 1000 employees actually lost 135,000 jobs.

These two features are consistent for each of the five time periods: in each time period the smallest employment size class was, uniformly, a net job generator whilst the largest sized businesses consistently lost jobs.

However, whilst it would appear clear that the 1-19 employee sized band has been responsible for much of the net job generation over the period 1971-91, this tells us little of the 'productivity' of each size class. To address this, later studies (Gallagher et al, 1990; Daly et al, 1991; and Gallagher, 1993) developed three indexes: a job creation index; a job destruction index; and a net fertility index. These are presented in Tables 3:3, 3:4 and 3:5. Each of these tables present two calculations. The first calculation is the percentage employment contribution of a particular size class. Hence, in Table 3:3, we can see that in the period 1989-1991, the gross (births + expansions) employment contribution of the 1-19 employment size class was 48.3% of all jobs whilst the 500-999 employee size class contributed 3.4% of the gross employment gain (out of 100%). Similarly, Table 3:4 shows that, for the same time period, that the employment loss (deaths + contractions) of the smallest size class was 38.6% of all jobs lost. The net effect (Table 3:5) of these two measures is that the 1-19 size class contributed 102.9% of employment whilst, on the other hand, the largest employment size class (1000+ employees lost) 38.4%.

In order to work out the job creation (Table 3:3), destruction (Table 3:4) and net fertility (Table 3:5) indexes, Gallagher et al (1990) suggest that the ratio of the percentage contribution of a particular size class should be divided by the percentage of its employment share in a particular time period (Table 3:2). For example, in 1989-1991 we have seen that the gross employment contribution of the smallest size class

was 48.3% of all employment. Table 3:2 shows that the percentage employment share of this size class was 29.2%. When these are divided together, the result is a ratio of 1.66 (Table 3:3). A similar procedure is also followed for the job destruction index (ratio of deaths and contractions to the percentage of employment share) and the net fertility index (ratio of births, deaths, expansions and contractions to the percentage of employment share).

Tables 3:3, 3:4 and Tables 3:5 show a fairly consistent pattern. For example, in terms of job creation (Table 3:3) we can see that the smallest size class consistently 'outperformed' other size classes. For example, for the period 1987-1989, the job creation ratio for the smallest size class was 1.67 whilst it was only 0.42 for the largest size class. The smallest size class was also, with the exception of 1982-1984, the size class most likely to lose employment (Table 3:4): in 1987-1989 its job destruction ratio was 1.67 which is considerably higher than that of the 1000+ size category (0.39). In terms of net fertility (Table 3:5), we can see that the overall contribution, once employment share is accounted for, of the smallest size class is 1.68. This compares favourably with that of the 1000+ employee size category (0.46).

A uniform picture, therefore, seems to emerge from tables 3:1 through to 3:5: the smallest size class is more likely to create employment opportunities than any other size class. Moreover, the job generation potential of this size class would appear to be unaffected by the macro-economic environment. Little wonder, therefore, that "in the 1970s, in the UK, small firms were an important source of new jobs. In the 1980s they are the major source". (*Employment Gazette*, November 1986, cited in Storey and Johnson, 1987: 6)

Based upon these results, it may be concluded that the appropriate means of creating employment, particularly in depressed economies, is to stimulate increases in the quantity (start-ups) of small businesses. As the next section will show, however, it is not altogether clear that this is judicious.

Table 3:1: Job generation by size of firm, 1971-81, 1982-84, 1985-87, 1987-89 and 1989-91

Year	Size of firm (number of employees) 1 –19	20 – 49	50 - 99	100 – 499	500 – 999	1000+	All
Number of jobs (000s),							
Births							
(1971-81)	1,460	190	260	820	280	550	3,560
(1982-84)	390	90	40	100	10	70	700
(1985-87)	896	114	69	57	16	2	1,154
(1987-89)	680	56	29	32	2	5	804
(1989-91)	496	45	26	28	3	1	599
Deaths							
(1971-81)	1,090	390	360	1430	510	1,270	5,050
(1982-84)	340	120	110	290	130	440	1,430
(1985-87)	1,031	282	96	179	91	36	1,717
(1987-89)	641	100	62	92	14	46	955
(1989-91)	648	140	88	120	21	62	1,079
Contractions							
(1971-81)	0	120	140	730	490	182	1,662
(1982-84)	0	60	110	220	130	380	900
(1985-87)	168	91	92	168	66	467	1,052
(1987-89)	176	53	46	100	29	150	554
(1989-91)	133	67	64	145	67	470	946
Expansions							
(1971-81)	730	200	200	830	410	130	2,500
(1982-84)	550	180	170	120	70	270	1,360
(1985-87)	599	184	192	337	214	395	1,921
(1987-89)	751	173	165	283	97	367	1,836
(1989-91)	653	197	168	289	78	395	1,780
Net job generation							
(1971-81)	1,100	-120	-40	-510	-310	-772	-652
(1982-84)	600	90	-10	-290	-180	-480	-270
(1985-87)	296	-75	73	47	73	-106	308
(1987-89)	614	76	86	123	56	176	1,131
(1989-91)	368	35	42	51	-7	-135	354
Base year employment[50]							
(1971-81)	2,050	970	960	4,280	1,970	7470	17,700
(1982-84)	3,360	1,570	1,200	2,840	1,250	4,550	14,770
(1985-87)	3,573	1,635	1,546	2,727	1,104	6,158	16,744
(1987-89)	4,741	1318	1,151	1,966	558	4,900	14,634
(1989-91)	4,621	1,518	1,142	2,054	613	5,887	15,835

Sources: Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993

[50] Base year employment is a grossed up estimate of the employment in a particular size category. In each of the studies, it has been claimed that such estimates represent a reliable estimate of UK employment (Doyle and Gallagher, 1987).

Table 3:2: Percentage job generation by size of firm, 1971-81, 1982-84, 1985-87, 1987-89 and 1989-91

Year	Size of firm (number of employees) 1 –19	20 - 49	50 – 99	100 - 499	500 – 999	1000+
Percentages of jobs						
Births						
(1971-81)	41.01	5.34	7.30	23.03	7.87	15.45
(1982-84)	55.71	12.86	5.71	14.29	1.43	10.00
(1985-87)	77.64	9.88	5.98	4.94	1.39	0.17
(1987-89)	84.58	6.97	3.61	3.98	0.25	0.62
(1989-91)	82.80	7.51	4.34	4.67	0.50	0.17
Deaths						
(1971-81)	21.58	7.72	7.13	28.32	10.10	25.15
(1982-84)	23.78	8.39	7.69	20.28	9.09	30.77
(1985-87)	60.05	16.42	5.59	10.43	5.30	2.10
(1987-89)	67.12	10.47	6.49	9.63	1.47	4.82
(1989-91)	60.06	12.97	8.16	11.12	1.95	5.75
Contractions						
(1971-81)	0.00	7.22	8.42	43.92	29.48	10.95
(1982-84)	0.00	6.67	12.22	24.44	14.44	42.22
(1985-87)	15.97	8.65	8.75	15.97	6.27	44.39
(1987-89)	31.77	9.57	8.30	18.05	5.23	27.08
(1989-91)	14.06	7.08	6.77	15.33	7.08	49.68
Expansions						
(1971-81)	29.20	8.00	8.00	33.20	16.40	5.20
(1982-84)	40.44	13.24	12.50	8.82	5.15	19.85
(1985-87)	31.18	9.58	9.99	17.54	11.14	20.56
(1987-89)	40.90	9.42	8.99	15.41	5.28	19.99
(1989-91)	36.69	11.07	9.44	16.24	4.38	22.19
Net job generation						
(1971-81)	-168.71	18.40	6.13	78.22	47.55	118.40
(1982-84)	-222.22	-33.33	3.70	107.41	66.67	177.78
(1985-87)	96.10	-24.35	23.70	15.26	23.70	-34.42
(1987-89)	54.29	6.72	7.60	10.88	4.95	15.56
(1989-91)	103.95	9.89	11.86	14.41	-1.98	-38.14
Base year employment (%)						
(1971-81)	11.58	5.48	5.42	24.18	11.13	42.20
(1982-84)	22.75	10.63	8.12	19.23	8.46	30.81
(1985-87)	21.34	9.76	9.23	16.29	6.59	36.78
(1987-89)	32.40	9.01	7.87	13.43	3.81	33.48
(1989-91)	29.18	9.59	7.21	12.97	3.87	37.18

Sources: Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993

Table 3:3: Job Creation Index, 1971-81, 1982-84, 1985-87, 1987-89 and 1989-91

	Size of firm (number of employees)					
Year	1 -19	20 - 49	50 - 99	100 – 499	500 – 999	1000+
Job generation due to births and expansions (%)						
(1971-81)	36.14	6.44	7.59	27.23	11.39	11.22
(1982-84)	45.63	13.11	10.19	10.68	3.88	16.50
(1985-87)	48.62	9.69	8.49	12.81	7.48	12.91
(1987-89)	54.20	8.67	7.35	11.93	3.75	14.09
(1989-91)	48.30	10.17	8.15	13.32	3.40	16.65
Ratio of job generation (births and expansions) by employment share						
(1971-81)	3.12	1.17	1.40	1.13	1.02	0.27
(1982-84)	2.01	1.23	1.25	0.56	0.46	0.54
(1985-87)	2.28	0.99	0.92	0.79	1.13	0.35
(1987-89)	1.67	0.96	0.93	0.89	0.98	0.42
(1989-91)	1.66	1.06	1.13	1.03	0.88	0.45

Sources: Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993

Table 3:4: Job Destruction Index, 1971-81, 1982-84, 1985-87, 1987-89 and 1989-91

	Size of firm (number of employees)					
Year	1 -19	20 - 49	50 - 99	100 - 499	500 - 999	1000+
Job destruction due to deaths and contractions (%)						
(1971-81)	16.24	7.60	7.45	32.18	14.90	21.63
(1982-84)	14.59	7.73	9.44	21.89	11.16	35.19
(1985-87)	43.30	13.47	6.79	12.53	5.67	18.17
(1987-89)	54.14	10.14	7.16	12.72	2.85	12.99
(1989-91)	38.57	10.22	7.51	13.09	4.35	26.27
Ratio of job destruction (deaths and contractions) by employment share						
(1971-81)	1.40	1.39	1.37	1.33	1.34	0.51
(1982-84)	0.64	0.73	1.16	1.14	1.32	1.14
(1985-87)	2.03	1.38	0.74	0.77	0.86	0.49
(1987-89)	1.67	1.13	0.91	0.95	0.75	0.39
(1989-91)	1.32	1.07	1.04	1.01	1.12	0.71

Sources: Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993

Table 3:5: Net Fertility Index, 1971-81, 1982-84, 1985-87, 1987-89 and 1989-91

Year	Size of firm (number of employees) 1 -19	20 - 49	50 - 99	100 - 499	500 - 999	1000+
Net fertility (births and expansions minus deaths and contractions) (%)						
(1971-81)	-168.71	18.40	6.13	78.22	47.55	118.40
(1982-84)	-222.22	-33.33	3.70	107.41	66.67	177.78
(1985-87)	96.73	-24.51	23.86	15.36	23.86	-34.64
(1987-89)	54.29	6.72	7.60	10.88	4.95	15.56
(1989-91)	103.95	9.89	11.86	14.69	-1.98	-38.42
Ratio of net fertility (births and expansions minus deaths and contractions) by employment share						
(1971-81)	-14.57	3.36	1.13	3.23	4.27	2.81
(1982-84)	-9.77	-3.14	0.46	5.59	7.88	5.77
(1985-87)	4.53	-2.51	2.58	0.94	3.62	-0.94
(1987-89)	1.68	0.75	0.97	0.81	1.30	0.46
(1989-91)	3.56	1.03	1.65	1.13	-0.51	-1.03

Sources: Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993

3.4. Alternative Accounts of the Contribution of Small Businesses to Employment Generation

Doubts, however, have been expressed about the presumption that job creation is likely to occur amongst the smallest size class of business. These concerns take four principal forms. First, statistical doubts have been expressed about whether or not smaller-sized businesses are in fact responsible for much of the net job generation. A second concern is that there is strong evidence to suggest that a large number of small businesses will subsequently fail. A third issue is that there is also considerable evidence to suggest that small business are owned or run by individuals who are uninterested in growth of any kind. Finally, strong evidence also exists to suggest that

it is only a tiny percentage of small businesses that contribute the bulk of employment generation. We look at each of these doubts in turn.

3.4.i. Statistical Doubts

One obvious statistical doubt that can be expressed about the results presented above is that it is possible to arrive at counter-intuitive results. Take, for example, the results for Table 3:5. For the periods 1971-1981 and 1982-1984, we can clearly see that the net fertility ratio for the 1-19 employee size class is negative (-14.57 and –9.77, respectively). This, however, runs counter to the results presented in Table 3:1. In Table 3:1, we saw, for example, for the period 1971-81 that the 1-19 employee category contributed 1,100,000 new jobs whilst overall there was 652,000 jobs lost. This would, therefore, indicate that this size class is the principal contributor to employment. However, when these two figures are divided together, the result is a net fertility percentage of –168.71 (Table 3:5). Subsequently, it is inevitable, once this is divided by the ratio of employment share 11.58, that a negative number will result (-14.6).

Now, it may be justifiable argued, as the net fertility ratios where only conducted for later studies (Gallagher et al, 1990; Daly et al, 1991; and Gallagher, 1993), that it is unfair to conduct such analyses retrospectively. Nonetheless, what such anomalous results do show is that it is possible to produce statistically contrived findings. This impression is given further weight if we also consider two other features of the results. First, employment share is an estimate and, however seemingly reliable it is, it may still be debated if it is an appropriate estimate. A second feature of the results above

(notwithstanding the forced creation of employment size classes at either ends of the employment size spectrum) is that the size classes presented are essentially arbitrary. The arbitrariness of particular size bands becomes problematic when we consider the statistical effect of businesses crossing arbitrary size bands. To demonstrate this, consider Table 3:6 which shows the employment change in four hypothetical businesses over a three year period.

Table 3:6: Employment Changes in Four Hypothetical Firms

Year	Firm A	Firm B	Firm C	Firm D
Year 1	15	25	5	50
Year 3	25	15	50	5
Year 5	15	25	5	50

Source: Adapted from Hirschberg, 1999

Table 3:6 shows that Firm A grew from 15 employees to 25 in Year 3 before returning back to its original size. Similar results, although more pronounced, are also evident for Firm C. Employment change for Firm B and D is, on the other, reversed. Overall, however, there has been no change in the structure of employment over the three year period. Nevertheless, if we were to count these changes using the methodology used above, it is clear that we would attribute the growth between Year 1 and year 3 for Firms A and C to the smallest size group (say 1-19 employees) and the subsequent job loss between Year 3 and Year 5 to another employment size group. The effect, therefore, is to 'over count' the contribution of the smallest size class.

Table 3:6 is an example of the regression to the mean problem. This results when at point t_1 (the base year) firms are classified into various (arbitrary) size bands. Over the long run (t^{+1}), these firms are likely to vary in the growth rates (number of their

employees). However, such a method is likely to favour smaller businesses since (presuming they grow) it is likely that such growth will be attributed to the original size classification. For large firms, presuming that employment is in decline, such losses will be ascribed to its original size classification. Moreover, such a methodology hides transitory changes in employment rates since it may be that a large firm declines (job losses attributed to large firm), improves (job increases to smaller business), and returns to its long run mean (job increases to smaller business).

To control for this suggested problem, Davis et al (1996) advocate the use of average plant size (weighted mean number of employees over time) as a means of overcoming this difficulty. Hence, by using the Longitudinal Research Database (US Bureau of Census) for 1972-1988, they are able to show that radically different results obtain for a components of employment change analysis of US manufacturing firms. Under the standard base year calculation, they find that plants with fewer than 20 employees create 10.3 jobs whilst larger plants (500-999 employees) suffer negative job creation (-2.7). Using the average plant size measure, the result is different: plants with fewer than 20 employees have a negative rate of –1.3 that is broadly comparable to plants with 500-999 employees (-1.0)[51]. Little wonder, therefore, that Davis et al (1996) conclude that "net job creation behavior in the U.S. manufacturing sector exhibits no strong or simple relationship to employer size" (p. 301).

Besides these difficulties, there are methodological doubts about the results derived by Birch (1979) and the five studies presented above. These doubts have arisen

[51] Davis et al (1996) also use the current plant size measure (average of plant's current employment and employment a year earlier). This is perhaps even more remarkable since plants with fewer than 20 employees are calculated to have a negative rate of –4.5 whilst plants of 500-999 employees have a rate of -0.6.

because it is possible to interpret the data source (Dun and Bradstreet) in differing ways. For example, Armington and Odle (1982) in the US found that small businesses created only 51% of net new jobs (using a definition of fewer than 100 employees) or only created 36% (fewer than 20 employees). This is somewhat different from Birch's (1979) suggestion (81.5% and 66% respectively). They arrived at these differing results because they believed that Birch (1979) had confused enterprises with establishments and, in so doing, over-inflated the role of small businesses and under-estimated the contribution of larger firms:

> A significant portion of the growing small *establishments* are branches or subsidiaries of large *firms*, and when employment growth is measured by the size of the firm rather than by the size of the individual establishment a sharply different picture of the role of small business in the job creation process emerges" (Armington and Odle, 1982: 14) [emphasis in original].

More generally, Storey and Johnson (1986, 1987) have argued that the US Dun and Bradstreet database suffers from a number of deficiencies: it is a sample of firms seeking a credit rating rather than a dedicated business census; it misses branch records[52], is prone to clerical errors; under-reports certain sectors (e.g. retailing and service establishments); and mis-classifies branches as independent firms. As such, Storey and Johnson (1986, 1987) believe that is entirely possible for Armington and Odle (1982) to come to differing conclusions to Birch (1979) since they had differing policies on the treatment of non-updated records[53], clerical errors, births[54], branch

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[52] For example, some branches of large firms will not require a credit rating since this may be dealt with the firm's headquarters.

[53] Some 42% small firm records were not updated between 1978-1980. These were excluded by Armington and Odle but included by Birch.

[54] One of Dun and Bradstreet database's more serious problems, according to Storey and Johnson (1987) is that it underestimates the number of 'births' of new firms in any one period. Recognising this, both the MIT and the Brooking teams adopted differing treatments of 'births'. Subsequently, it is not surprising that each team came to differing conclusions: MIT estimated employment to be 4,275,000 in single plant firms whilst Brookings estimated it to be 2,613,000. This is a difference of 1,662,000.

births[55] and deaths[56]. Storey and Johnson (1986, 1987) have also suggested that the UK Dun and Bradstreet database suffers from similar problems.

In their defence, Gallagher and Stewart (1986b) have attempted to refute such criticism. Hence, besides the efforts to 'clean' the data (Meakin et al, 1985), they suggest that their estimate for the number of small businesses was conservative[57]. Furthermore, Gallagher and Stewart (1986b) discount the claims that the database misrepresents firm births or ignores very young firms since the database does contain large numbers of young firms and has checks for births (Meakin et al, 1985). Finally, in regard to the quality of the 1971 data, Gallagher and Stewart (1986b) argue that they have conducted several checks to remove doubtful data: a practice, they argue, that is not always so common in other studies.

It may also be that too much could be read into the work of Davis et al (1996). Carree and Klomp (1996), for instance, have disagreed with the of average plant size since it is difficult to ascertain, particularly in terms of small businesses, the long run mean employment. Similarly, Davidsson et al (1998) have argued that such a measure can

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[55] As we have seen, the Dun and Bradstreet database may be prone to missing branch plants due to there being no need for a separate credit rating. This problem may become exacerbated over time as existing branches are potentially coded as new births. Yet again, the Brookings and MIT teams adopted different treatments for their respective components of change analyses. And, as with before, Storey and Johnson (1987) claimed that "the Brookings approach clearly over-estimates branch births, the adjustments made by MIT lead to a gross under-estimate of actual branch births" (p. 62).

[56] As with VAT data, a delisting from the Dun and Bradstreet dataset may not necessarily mean that firms have died. Equally, firms that are no longer trading may persist on the database as there is often a time lag, particularly in regard to smaller firms, in the removal of firms from the database. As with before, 'deaths' were measured differently by Brookings and MIT leading to Brookings advancing the cause of bigger firms and MIT that of the smaller.

[57] They suggest that as the number of firms with 1-9 employees was not known, their grossing-up estimation of a factor of 3 was conservative since the factor could reasonably be expected to be as high as ten.

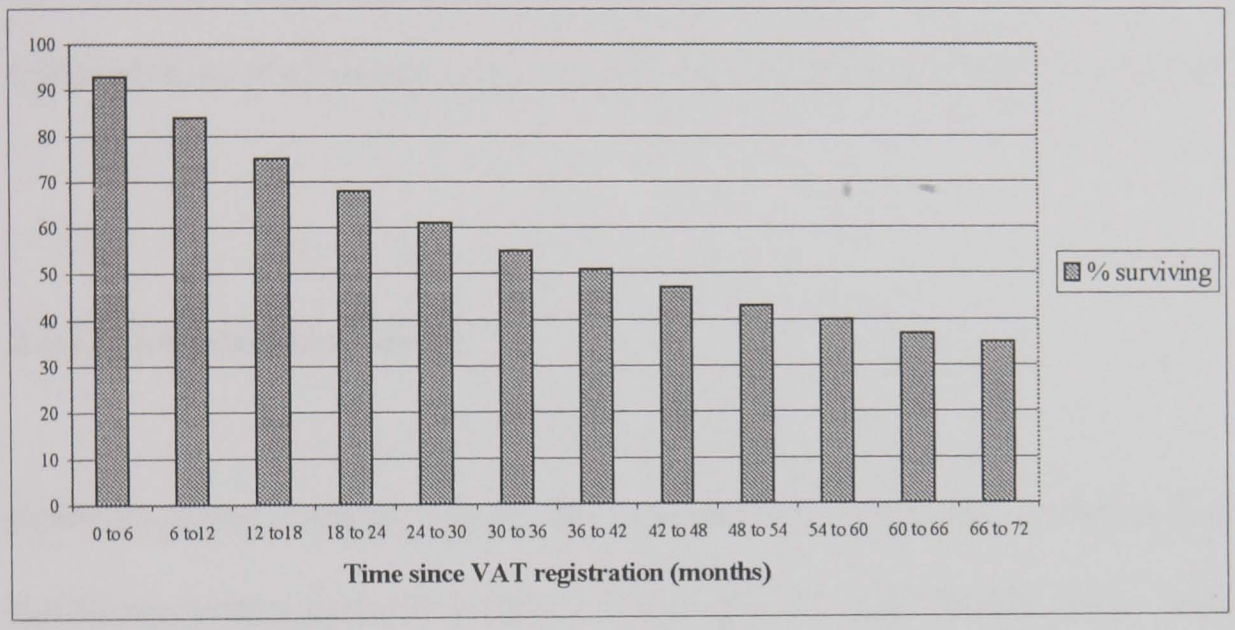
introduce own biases. Moreover, they argue that too much may be read into the regression to mean fallacy. Many businesses, they contend, do not cross (arbitrary) size boundaries and that, even if the fallacy exists, it "has not led researchers to draw qualitatively false conclusions from such analyses" (p. 98). Hughes (1997) has also argued that "the evidence for this sort of effect [regression to mean fallacy] in the UK is less compelling" (p. 9).

3.4.ii. The Perishability of Small Businesses

Such evidence assumes that the time frames employed by Gallagher et al (two years) or Birch (four years) are optimal. If, however, we look beyond the short term, what emerges is perhaps the most salient feature of small businesses: "the fundamental characteristic, other than size *per se*, which distinguishes small businesses from large is their higher probability of ceasing to trade" (Storey, 1994: 78). Empirically, as Figure 3:1 demonstrates, this would seem incontrovertible: 16% of businesses who register for VAT in any one year will subsequently deregister one year later (Bank of England, 1999). By the time three years have elapsed this has increase to 45% of all business. And, after six years 65% of businesses have deregistered. Cressy (1998) has also shown that, in a study of NatWest business customers, that only 19% of them were still with the bank after six years. In an international context, Gray (1996) has also shown that the UK's VAT deregistration rates are broadly similar in other OECD countries (Denmark, Finland, France, the Netherlands and Sweden) where 20% of businesses 'die' after one year; 40% after three years and 50% after five years. Mata and Portugal (1994) have found also found that 50% of Portugese manufacturers were likely to go out of business after four years. Moreover, whilst it is clear that smaller

sized businesses (1-19 employees) are the most likely to create jobs, it is also clear that small businesses are the most likely to lose jobs (Tables 3:1 and 3:2).

Figure 3:1: Life-Span of VAT Registered Businesses



Source: Bank of England, 1999

Furthermore, there is also evidence to suggest that many small businesses have a marginal existence. One consistent example of this is small-scale food retailing. Here, there is considerable evidence to suggest that many such stores persist despite being under capitalised, in poor premises, and frequently unprofitable (Davies and Kirby, 1980; Jones, 1982; Nowikowski, 1984; Bechhofer and Elliott, 1986; McEvoy and Aldrich, 1986; Ram, 1992; Phizacklea and Ram, 1996; and Basi and Johnson, 1996). It is also clear that there exist many small businesses who find that running a business can be a rather depressing, stressful and limited existence:

> The majority of these people, in choosing to run new, small, capitalist enterprises, are not taking a step up the class ladder into the *petit bourgeoisie*...but rather remain in a casualized world of work founded upon lower-class, poorly paid jobs, government schemes and the constant threat of unemployment (MacDonald and Coffield, 1991: 163)

This point is echoed by further elaborations of these findings which show the continued how difficult running a small business may be and that 'failure' is more a common occurrence (MacDonald, 1994, 1996). Indeed, outside of the North East, Bögenhold and Staber (1991) have shown in an international study of self-employment that "a significant proportion of self-employed workers survive in marginal areas of economic activity where profit opportunities are limited" (p. 235).

3.4.iii. Attitudes to Growth

Other empirical evidence would also suggest that, in the main, small businesses are run by owner/managers who seek to 'satisfice' (e.g. seek independence, sustain their lifestyle, etc.,) rather than maximise their growth potential. Indeed, this aspect of small business owner/managers' behaviour has been long recognised:

> The desire for independence may well conflict with the interests of their own business. Many owner managers of small firms recognise that should the business expand beyond a certain point, they would then be obliged to engage supervisory staff, take a partner or have recourse to external sources of finance, all of which would inevitably lead to some loss of independence. (Bolton, 1971: 24)

This is also evident in the work of Scase and Goffee (1986) and Stanworth and Curran, (1973, 1976). Stanworth and Curran (1973, 1976) suggest that any growth goals may conflict with loss of control and - assuming that small businesses owner-managers remain socially 'marginal' - a dilution of their identity. Hakim (1989) has also shown, in her survey of 747,970 businesses, that 55% of all small businesses had no plans to grow and that another 35% only wished to grow slowly. Gray (1992), has argued, based upon the SBRT/NatWest Small Business Quarterly surveys, that "there

is little empirical evidence of any widespread desire or ability to grow amongst Britain's small business enterprises" (p.59). Indeed, if anything, it is clear to Gray that "many firms driven by independence and other intrinsic motives are, strictly speaking, not businesses" (p.69). Related to this, Cosh and Hughes (1994) have also argued that "the financial structure of small firms is consistent with a strategy of growth and investment finance directed towards maintaining inside control and freedom from constraints" (p. 53). More recent survey evidence, based upon SBRT/NatWest research, further confirms the 'lifestyle' orientation of small businesses. For example, Table 3:7 shows that only about 16% (1996) of small business owner-managers are principally motivated by profit maximisation. The more common objective is, instead, to retain independence (be own boss, work by myself) or seek to exit at some point in the future (create a more secure future).

Table 3:7: The Objectives of the Small Business Owner-Manager

	1996	1999
To be my own boss	44.1	38.9
Make money	15.8	16.7
Create a more secure future	9.8	14.2
No alternative	10.5	8.1
To work by myself	7.4	7.4
Family tradition	4.5	4.8
To earn respect	0.8	1.3
Other	6.5	7.7

Source: SBRT/NatWest, 1999: Table 4.1.

This emphasis upon independence is also reflected in the objectives that owner-managers have for their business. As Table 3:8 shows, only 21% of owner-managers have profit maximisation ambitions when surveyed in 1996 whilst about 6% are interested in innovation or sales maximisation. Equally, only 0.5% of owner-managers see it as employment maximisation as a goal for their business. Instead, in

common with their own personal goals, the majority are seemingly interested in lifestyle objectives or developing their existing income stream.

Table 3:8: The Business Objectives of the Small Business Owner-Manager

	1996	1999
To support your preferred lifestyle	35.2	32.9
To protect your future or build an asset for your children	15	21.1
Growth in profits	21.2	17.4
To improve your standard of living	8.2	9.1
To develop products/ideas/innovate	7	5.4
Growth in sales	6.1	5.2
Growth in employment	0.5	0.5
Other	5.8	7.6

Source: SBRT/NatWest, 1999: Table 4.3.

3.4.iv. Fast Growth Businesses

Such arguments suggest that we should not look towards the small business, *per se*, to provide employment growth. Instead, as Storey (1982, 1985) suggests, we should look to a small number of fast growth businesses. In his 1985 exegesis of surviving openings of wholly new independent manufacturing establishments in the counties of Durham, Cleveland and Tyne and Wear (1965-1978), he argued that it is facile to assume that all small businesses create employment. Instead, his study suggested that the bulk of employment generation (33.8%) was the result of the growth of a very small number (47) of businesses (Table 3:9).

Table 3:9: Employment in Surviving Openings of Wholly New Manufacturing Firms in Northern England, 1965-1978

1978 employment size	No. of firms	% of survivors	Total employment	Arithmetic mean employment	% of total employment in each size group
1-9	429	55.4	1,862	4.3	15.7
10-24	217	28.1	3,297	15.2	27.8
25-49	81	10.5	2,693	33.2	22.7
50-99	39	5.0	2,629	67.4	22.2
100+	8	1.0	1,376	172.0	11.6
Total	774	100.0	11,587	14.9	100.0

Source: Storey, 1985: Table 2.8.

Extrapolating out of the results of this study Storey (1994) has - based upon a conservative estimate that of 100 firms formed in year *t* only 40 firms will still be trading *t*+10 years later[58] - gone on to starkly show that "over a decade, 4 per cent of those businesses which start would be expected to create 50 per cent of employment generated" (p. 145) (Table 3:10).

Table 3:10: Estimated Employment in Surviving Small Manufacturing Firms

t^{+10} years employment size	No. of t^{+10} years survivors	Arithmetic mean employment	Total employment	Employment in 4% of firms	4% employment contribution
1-9	22	4.3	95	0	
10-24	11	15.2	167	0	
25-49	4	33.2	133	40	5.7
50-99	2	67.4	135	135	19.2
100+	1	172.0	172	172	24.5
Total	40	14.9	702	347	49.4

Source: Storey, 1994: Table 5.2.

As Storey (1994) admits, there are a number of criticisms that can be made of such results. First, the data is rather dated (1965-78) and it is based upon manufacturing establishments in, what we have seen, is a rather unusual area of the UK. As such, therefore, Storey's study may, therefore, be criticised because it may shed little light

[58] Although ten years may seem a purely arbitrary time span, longitudinal work by North et al (1992) has indicated that: "firms generally need up to 10 years to become firmly established and that the age of the firm after this period becomes less significant" (p. 15).

on contemporary developments in small businesses such as the growth of small businesses in other economic regions or in service sectors.

Other studies, however, have given weight to Storey's findings. Fothergill and Gudgin (1982), for example, found that fewer 1% of post 1968 start-ups grew to employ over 100 employees. Mason (1985) also found that 3 businesses in Hampshire were contributed 39% of employment. North and Smallbone (1993), in tracking 302 mature small businesses in London, the South East and the North of England over a ten year period (1979-90), found that 77.4% of the new jobs created were due to 70 businesses out of a sample of 309. Similarly, Woods et al (1993) showed that the impact of a small percentage of small business was not confined to manufacturing. Using a sample of service businesses in diverse sectors such as garage and vehicle repairs, computer services and advertising, marketing and design, Woods et al (1993) show that over the length of the study (1990-1993) that "growth in total employment was confined to one-fifth of the surviving firms" (p.125). Indeed, they go to suggest that "these findings add substantial weight to the view that out of any group of firms, only a few are likely to grow to any significant size and job creation tends to come from a few small firms rather than small firms generally" (p. 125). Birch et al (1997), in what perhaps is a *volte face*, has also gone on to suggest that it would be inappropriate to consider that the general small business population is the most likely source of employment generation. Instead, as with Storey, he suggests

that the majority of employment is created by the activities of a small number of 'gazelles' who, although they account for only about 3% of all US firms, are said to be responsible for about 70% of gross job growth[59].

3.5. Conclusions

This chapter has attempted to identify the source of the apparent correlation between the growth of small businesses and their increased contribution to employment. Early work by Birch (1979) suggested that the majority of net job generation was due to the smallest size class (fewer than 20 employees). Subsequent international studies have tended to confirm this finding. Within the UK, this was reaffirmed through regional studies of manufacturing businesses. We have also seen, at a national level, there is considerable evidence to confirm Birch's initial findings. These studies (Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993) have, until now, not been analysed together. What they show is that the smallest size band (1-19 employees) were the group most prone to 'turbulence' but that throughout the 1970s and 1980s this group were the most likely to generate the majority of net employment.

There, however, remain doubts about the validity of such findings. As we have seen, these partly stem from statistical concerns about the apparent biases of Birch and

[59] It has also been shown that employment growth can help the survival prospects of small businesses. Phillips and Kirchhoff (1989), have shown that businesses that do not add to their initial employment level, it is likely that only 26% of such businesses (1-4 employees) will survive after six years. However, if just 1 employee is added by businesses, it is likely that the survival rate will increase to 65%.

Gallagher et al's accounting methodology. Initial firm size, it has been claimed (Davis et al, 1996), is likely to overestimate the growth potential of smaller sized enterprises. Attempts, to compensate for this supposed 'regression to the mean' fallacy such as the taking the average size of enterprises do, however, bring their own measurement difficulties. It is also clear that available evidence suggests that the regression to mean fallacy has been overemphasised, at least in the UK context.

A perhaps more substantive issue in understanding the employment generation potential of smaller sized businesses is that they are the most likely to perish. Indeed, it would appear that of a cohort of 100 newly registered VAT businesses that start up in year one, 45 of these businesses will no longer be registered by year three and 60 of these will have disappeared by year six. There is also evidence to suggest that many small business owner-managers oversee marginal businesses and precariously hold onto their limited economic status by dint of sheer hard work and the acceptance of limited financial rewards.

Such evidence, whilst not sufficient to suggest that the employment potential of small businesses is a mirage, does nonetheless suggest that we should be careful in interpreting that employment generation is a function of all small businesses. This is even clearer when the motivations of the small business owner-manager is considered. Early and subsequent research has consistently revealed that the dominant motivation of those who run small businesses is non-economic. Hence, individuals are concerned not so much with the growth of their businesses but using the business as a vehicle to promote lifestyle goals (e.g. independence). This, of course, is not necessarily at odds with the suggestion that smaller sized businesses create employment. Yet, again, it

does indicate that we should look more closely at the sorts of smaller sized enterprises that create employment and remain sensitive to the fact that employment creation is not the principal goal of the small business.

The importance of concentrating upon some rather on all small businesses is particularly evident in the work of Storey (1982, 1985). He has suggested that if we take a ten year period it is likely that the majority of employment creation amongst new start-ups is due to a tiny percentage of businesses. This finding is also apparent in other research (Birch et al, 1997).

The accretion of evidence, therefore, would, suggest that we have to be careful about any assumption that suggested that *all* small businesses are central to employment creation. Indeed, whilst the early part of this chapter has shown that there is some evidence to show the net fertility of the small business sector, closer investigation in the latter part of the chapter reveals that the bulk of employment generation is due to a few smaller sized businesses. Indeed, in his review of the employment generating capabilities of small businesses, Hughes (1998) argues that "the distribution of growth trajectories across businesses demonstrates some distinct properties. In particular, and of specific relevance to this study, the distribution is highly skewed. A handful of sustained, strong growth companies pull away from the remaining pack" (p. i.).

On balance, therefore, this thesis sees that there are good grounds for concentrating upon the employment potential of existing businesses rather than new start-ups. This may lead us to suggest that, if the bulk of available job creation is due to a small number of fast growth businesses, then it is vital to more clearly comprehend these

businesses, particularly in depressed regional economies such as the Northern Region. The next chapter, therefore, considers previous research on fast growth businesses and considers the role that support is said to play in such businesses.

Chapter 4: The Contribution Of Support To Fast Growth Small Businesses

4.1. Introduction

On balance, the previous chapter suggested that the majority of employment generation was likely to be due to a small percentage of fast growth businesses. It may, therefore, be appropriate to concentrate upon attempting to improve the quality of existing businesses for economies such as the Northern region.

The trouble with this, as the first part of this chapter will show, is that it has proved difficult to identify the characteristics of small growth businesses. This is apparent from whatever perspective is taken: an examination of the characteristics of the business; the characteristics of the entrepreneur; or the characteristics of business activity (Storey, 1994).

What is less perceptible is what types of support are used (if at all) by fast growth businesses. This is considered in the second part of the chapter. It may be, following on from Stanworth and Curran (1976), that entrepreneurs are, by their very nature, disinclined to rely upon support. This, indeed, is the general finding of Curran and Blackburn (1994). Alternatively, following on from Jovanovic (1982) and Gibb (1993), it may be that growth businesses perceive advantages in the use of support, particularly as they may have a heightened need for support.

There are a variety of available support mechanisms that a business may choose to turn to for advice and support. These include family, friends, accountants, solicitors, suppliers, and business associates. Such support is often seen as the network of the small business owner-manager:

> a network is defined as the totality of all persons connected by a certain type of relationship and is constructed by finding the ties between all persons in a population in a study, regardless of how it is organised into role-sets and action sets. (Aldrich and Zimmer, 1986: 12)

Attempts have also been made to conceptualise the differing support used by the small business owner-manager. Szarka (1990), for example, has identified three particular types of relationship: social, transactional (relationship with customers/suppliers) and communicative (outsider support agencies such as accountants, banks, solicitors). Birley (1985) has also argued that nascent entrepreneurs distinguish between informal sources of support (e.g. friends, family and business contacts) and more formal sources (e.g. Chambers of Commerce). Curran et al (1993) have gone on from this distinction to suggest that small business owner-managers use a continuum of support. At one end is compulsory relationships which small business owner-managers often have no choice in dealing with (e.g. Inland Revenue) whilst at the other extreme is voluntary associations (e.g. professional/trade associations).

Bryson et al (1993) have criticised Curran et al's (1993) continuum as they feel that what may appear a voluntary association (e.g. Chamber of Commerce) may in fact be vital for the owner-manager. They, instead, suggest that relationships can be broken down into those with a demand-related focus (obtaining new customers, maintenance

of existing relationships with customers) and those with a supply-related focus (maintenance of existing relationship with suppliers).

Each of these conceptualisations are useful rubrics for understanding the support available to small business owner-managers. However, in the second part of this chapter, we shall consider an alternative means of differentiating between sources of support. The chapter will suggest that there are four kinds or states of support: no support; social support; brokerage support; and 'network substitute' support.

Of the four types, social support is perhaps the most readily recognised. This form of support is, as Birley (1985) suggests, most likely to be gained from informal contacts and are typically family, friends and business contacts. Brokerage support (Aldrich and Zimmer, 1986; and Aldrich, 1999) is typified by individuals or organisations that act to minimise transaction costs by reducing search costs or by providing information, advice and/or resources. Typically, these support providers seek payment for such support and may, therefore, be thought of as being organisations such as banks, accountancy practices, solicitors, consultants, business angels or venture capitalists.

There may, however, be instances where these market based sources of support may fail due to perhaps the price of such support, its inadequacy or because potential users are simply ignorant of its existence. In such cases, there may be a role for organisations that can act as 'network substitutes'. These support providers may provide a differentiated service from existing 'brokers' or, alternatively, a complementary or competitive role. Nevertheless, what is distinct about these

'network substitutes' is that they tend to be public or quasi-public organisations. Typically, therefore, besides providing support (often – although not always - at a lower rate of remuneration), they may also seek to represent their members (e.g. Chambers of Commerce, Trade Associations), meet wider economic goals (e.g. Training and Enterprise Councils, Business Links) or work in partnership with other providers (e.g. the TECs use academic institutions, Chambers of Commerce and Trade Associations) to help deliver their programmes.

The second part of this chapter, therefore, evaluates the available evidence on the use of these four types of support by fast growth businesses. Attention, however, is predominantly given to the role of one particular type of broker – the accountant. This is for two reasons. First, it is clear that accountants are the most commonly used source of support by smaller sized enterprises. It may, therefore, be anticipated that they are most likely to be used by growing businesses. A second reason for concentrating upon accountants is that this thesis seeks to understand if accountancy support is appropriately aligned to small employment growth businesses.

However, before we turn to the available research on support, let us consider other insights into business growth.

4.2. Previous Research on Fast Growth Businesses

Previous studies by Storey et al (e.g. 1987, 1989) display the difficulty of successfully delineating fast growth businesses from other types of business. For example, in Storey et al (1987) there was evidence that suggested that fast growth businesses in the North East of England shared the following common features: that they are likely to be found in certain sectors (e.g. rubber, textiles, mechanical engineering); to be of a larger size at start-up; that they were likely to be more professionally managed (often by serial entrepreneurs); were less likely to use large accountancy practices; and more likely to have higher retained profits.

Yet, two years later, in an analysis of 20 North East fast growth businesses 'matched' against 20 similar businesses[60], a different set of explanatory variables (more likely to introduce new products and be export orientated) were noted as being important. Moreover, despite such matching it was clear that:

> In our examination of entrepreneurial backgrounds we were not able to clearly identify major differences between those establishing fast growth and those establishing 'match' firms. For both groups individuals were likely to be male, in the 35-45 year age range, and with immediately pre degree level educational qualifications such as A levels, OND, HNC etc (Storey et al, 1989: 70).

Hakim (1989) has also pointed out that these factors which Storey et al (1989) identified are neither necessary nor sufficient for small business growth. In analysing the differences between the control group and the 'fast growth' group what is apparent

[60] Selection of matched firms was based not on growth but upon sector, age of business and ownership.

is that "the similarities between the two groups outweighed the differences" (Hakim, 1989: 38).

4.2.i. Firm Characteristics

It is also difficult to present a coherent narrative from other studies. Indeed, although Storey (1994) was able to draw together fourteen multivariate investigations of firm characteristics (e.g. size, age, sector, geographic location) he was only able to point to the evidence that suggested that some sectoral distinctions could be drawn and that limited companies were more likely to grow quicker than other legal forms of business. Elsewhere, Storey et al (1987) have suggested that fast growth businesses are likely to be younger. This is supported by empirical studies by Evans (1987), Variyam and Kraybill (1992), Reid (1995), and Barkham et al (1996). It would also appear that smaller sized enterprises are more likely to grow (Barkham et al, 1996; Reid, 1995; Storey et al, 1987). On the other hand, though Smallbone and North (1995) have shown that older, more established, businesses are also capable of growth[61]. It is, therefore, perhaps hard to suggest that an examination of firm characteristics alone will markedly improve our understanding of growing businesses.

[61] For life-cycle theorists (see Greiner, 1972; Galbraith, 1982; Churchill and Lewis, 1983; Flamholtz, 1986; Kazanjian, 1988; and Adizes, 1989) the age of a business is often implicitly or explicitly linked to their position on the sigmoid curve. Yet, Hanks et al (1993) and Westhead and Birley (1990) found no coherent association between the age of a business and their development.

4.2.ii. Entrepreneurial Characteristics

It has also proved difficult to establish if growth is correlated with the entrepreneurial characteristics of the owner-manager. For instance, in reviewing eighteen studies that investigate if such a relationship exists, Storey (1994) is only able to point to a few consistently significant relationships: fast growth businesses are more likely to be run by individuals with higher levels of education, prior management experience, experience (being middle-aged) and businesses founded by groups. At the same time, though, he also counsels that "it would mislead the reader to suggest that these patterns are strong" (Storey, 1994: 137).

Besides the studies identified by Storey (1994), Robinson and Sexton (1994), Cooper et al (1994), Macrae (1992) and Chandler and Jensen (1992) have all argued, for instance, that those with higher educational attainment were more likely to have growing businesses. Barkham et al (1996) have also shown that membership of professional organisations increases the likelihood of growth. Cooper et al (1994) have also suggested that a family background that included parents who were self-employed did not make any difference whilst ethnic minorities were suggested to do less well. Siegel et al (1993), Chell and Haworth (1992) and Macrae (1992) have also suggested that managers with business experience were more likely to have growth orientated businesses.

Nonetheless, there are other studies that suggest that it is difficult to distinguish between the entrepreneur and the non-entrepreneur. For example, Kreuger and Feeser (1992) and Daily and Dalton (1992) found no difference in the growth propensities of

businesses run by founders or non-founders. Brockhaus (1980) has also argued that there is no difference between the risk propensities of entrepreneurs and business managers. Stewart et al (1998), however, suggest otherwise: in their study of 767 US businesses they find that entrepreneurs were more likely to have higher risk propensities, higher achievement motivation and prefer innovation when compared to small business owner-managers or corporate managers.

In essence, therefore, it may be very difficult to isolate entrepreneurial ability. Partly, this may be due to multiple definitions (Moran, 1998), but it is also clear that "there is no objective test of entrepreneurial ability which can guarantee a high degree of accuracy, and there is unlikely to be one in the foreseeable future" (Casson, 1982: 329).

4.2.iii. Business Activities

In terms of the activities of the business, Storey's (1994) review of twelve studies again can only point to four elements: the dispersal of equity with external stakeholders; the adoption of a focus on a particular segment of the market (niche specialisation); product development; and the employment of non-equity owning managers. Other research in this area has indicated the contribution of other factors to growth: market research (Barkham et al, 1996) innovation (e.g. Vaessen and Keeble, 1995; Thwaites and Wynarczyck, 1996; and Roper 1997); and product and market adjustments (Barkham et al, 1996; Smallbone et al, 1993). Covin and Slevin (1989) have also argued that entrepreneurial posture of a business (hostile competitive

environment, strategic orientated business practices and entrepreneurial culture) is related to business expansion.

Based upon the research above, it may be wondered if it is worthwhile attempting to identify growth businesses. Not only has it proved difficult to access the traits of individuals who have a propensity towards owning/managing growth businesses, it has also been difficult to say what sorts of businesses are the most likely to grow. As Gibb (2000) has suggested, it is too easy simply to assert that growth businesses are more likely to introduce new products, processes or innovations: it would be very surprising if growth did not involve novel development. Similarly, Gibb (1993) has argued that "different types of entrepreneurial behaviour are required in different market places to achieve growth and different traits, skills and competencies will be needed depending on levels of uncertainty and complexity in the environment" (p.16).

Fast growth businesses may just, as Reid and Jacobsen (1988) suggest, be a stochastic processes. All, in fact, that we really know, as Hakim (1989) points out, is that certain businesses have grown and, on this basis, that they may continue to grow.

Given this, it may be that there is little need to intervene to support fast growth businesses. Such businesses may have already grown of their own accord and may grow again. Hence, although the available evidence would suggest that fast growth businesses are central to employment growth, it may prove unnecessarily interventionist to interfere in the growth trajectory of a business.

This, as Gibb (2000) argues, is not a very strong point:

> networking and 'know-how' that goes along with it is the very essence of entrepreneurial activity and small business management and is fundamentally related to the survival and growth of the business. It is critical to the firm's transaction costs, the development of trust and its credibility with its 'community' (p. 18).

Storey et al (1987) have also argued that businesses that are growing may have, *inter alia*, finance, labour, premises or information needs. If anything, then, it is likely that they could potentially require greater levels of support.

It may, therefore, be that such sources of support can have an important role in supporting fast growth. This thesis, however, does not claim that the use of such support necessarily *caused* the growth of fast growth businesses (Storey, 1994). Instead, it is anticipated that the use of support by fast growth businesses will indicate to us the likely configuration of support in the Northern region of England and, therefore, point to ways in which existing business in this region may be more readily supported. The analysis of this is presented in later chapters of the thesis. For the moment let us consider the four types of support in turn. We begin with no support.

4.3. Sources of Support

4.3.i. No Support

Owner-managers of a fast growth business may make no use of support for a variety of reasons. First, it may be that the owner-manager is unaware of available support. This, in turn, may be due to inadequate search techniques by the owner-manager.

Stigler (1968) has suggested that this is a common feature of economic behaviour. Capital Planning Information (1982), Kirby (1990) and Long et al (1997) have also identified, for example, that many small business owner-managers fail to appreciate many of the problems they face. Moreover, even when owner-managers do invest in search costs, it is often sub-optimally. Cooper et al (1995), for instance, have shown, largely because of bounded rationality, that experienced owner-managers often confine their search activities to previously learned routines (Nelson and Winter, 1982) whilst inexperienced owner-managers often undertake little or no search activities. Owner-managers may also be confused by the range and variety of support available to them (Stanworth and Gray, 1991; and Townroe and Mallalieu, 1993). This may deter them from seeking advice and support.

Alternatively, the search costs, themselves, may be beyond what the owner-manager is willing to afford (Curran and Blackburn, 1994)[62]. This may be because the 'good' they are searching for has a high asset specificity (e.g. intangible asset). Such situations may also result when individuals only use an asset infrequently. Outside of a transaction cost framework, it may also be, from a principal-agent perspective, that owner-managers (principal) have trouble monitoring the activities of the provider of support (the agent). Faced with these situations, principals may decide to rely upon their own their own judgement rather than others (agents) because they either cannot adequately measure the contribution of the support provision or effectively monitor

[62] In situations where small businesses are seeking training, Storey and Westhead (1996) suggest that it is not just the direct costs of training that are important but also the opportunity costs of the employee or owner-manager being absent for the training period.

the support (Townroe and Mallalieu, 1993).

Another reason why owner-managers may feel that support is unnecessary is that they feel there is some qualitative difference between them and any available source of support. Again, this may be due to a variety of motives. For example, this may be due to a perception that they are undertaking an innovatory activity that will be misunderstood by any available support network. They may, therefore, decide not to expose themselves to the possibility of potential derision. Similarly, an owner-manager may feel that support would be unwelcome because to share their 'alertness' could potentially mean that any monopoly profits that may accrue would be likely to be dissipated by 'sharing' with others (Kirzner, 1973, 1979, 1985). This, of course, is related to the difficulties that owner-managers have in monitoring the activities of others. Alternatively, the entrepreneur may consider themselves in some way or other as socially marginal (Stanworth and Curran, 1973, 1976). Any introduction, therefore, of outsider assistance may, therefore, be seen as an unwelcome intrusion, threatening their sense of esteem. It is, of course, also possible that owner-managers may also use support but that they tend to ascribe any resulting benefits to their own activities. Gartner (1993) and Pineda et al (1998) call this the locus of control problem: "Individuals who are involved in successful organizing will attribute their own success to their actions" (Gartner, 1993: 234).

A final set of reasons why individual owner-managers may not utilise support is that their actions are independent of themselves. In other words, such individuals are reflexive, as the axioms of perfect competition suggest, to the workings of the price mechanism. At the extreme, this would mean that fully state contingent contracts

could be written and there is no likelihood of individuals acting opportunistically. A weaker, although still plausible version of this story, is that owner-managers operating fast growth businesses are more likely to be profit-maximisers (Machlup, 1946, 1947). As such, this alone may distinguish them from others who may be more interested in other objectives. It may also be that such individuals are *unconscious* of their activities or *misread* the reasons why they are successful. Consider, for example, Friedman (1953):

> A particularly clear example is furnished by the recent criticisms of the maximization-of-returns hypothesis on the ground that businessmen do not and indeed cannot behave as the theory 'assumes' they do. The evidence cited to support this assertion is generally taken either from the answers given by businessmen to questions about the factors affecting their decisions - a procedure for testing economic theories that is about on a par with testing theories of longevity by asking octogenarians how they account for their long life - or from descriptive studies of the decision-making activities of individual firms. (p. 31)

Owner-managers, therefore, may suggest that they use and value support but, from within the confines of the axioms of perfect competition, this appears as simple window dressing[63].

It may, however, be doubted if the owner-manager of the fast growth businesses can be as independent as orthodox neo-classical theory suggests. This, again, is for a variety of reasons. One such reason why fast growth businesses may use external support is that they may be forced to. This is the source of Curran and Blackburn's (1993) distinction between voluntary and compulsory support. They suggest that small businesses cannot operate legitimately without recourse to providing resources

[63] Friedman's goes on to suggest that analysis should be concentrated at the industry rather than the individual level. The problem with this, as Needham (1976) and Best (1990) indicate, is that, due to cross-elasticities, it is extremely difficult to define industrial structure.

or information to agencies such as the Inland Revenue, Customs & Excise or the Health and Safety Executive. Indeed, there is a whole raft of information and actions that a business, regardless of its growth trajectory, must take into account (e.g. the National Minimum Wage, the EU's Working Time Directive, the Stakeholder Pension Scheme). Small businesses may also face subtler compliance issues. For example, if their major customer requires them to have ISO9000 then, as a price taker, the smaller business may have no alternative.

Given these pressures, it may be that smaller sized enterprises have to find somewhere to store their income (bank), someone to account for this income (accountant) and someone to write contracts for them (solicitors). It may also be that the 'transactional' nature (Szarka, 1990) of their business requires them to have strong links with suppliers and customers. Indeed, without links to buyers and suppliers it is difficult to see how market relationships can operate (Bryson et al, 1993).

Related to this, it may be that orthodox economists themselves have misread the motives of economic actors. As we saw earlier, there is little evidence that small business owner-managers *consciously* seek to profit maximise (SBRT/NatWest, 1999). More fundamentally, driven on by the separation of ownership from control thesis (Berle and Means, 1932) and the rise of monopolies and oligopolies (Best, 1990), critics have suggested that market co-ordination rather than market competition is the fundamental motif of the current stage of capitalism: "the visible hand of managerial direction has replaced the invisible hand of market mechanisms,

however, in co-ordinating flows and allocating resources in major modern industries" (Chandler, 1990: 95).

Galbraith (1991 [1967]) has also emphasised that large corporations have sought to control markets by the modification of consumer behaviour. They do this by managing our needs. An attachment, therefore, by economists to an idealised (and normative) free market is largely illusory; a myth designed to hide away the complexities of late capitalism: "much of the appeal of the market, to economists at least, has been from the way it seems to simplify life. Better orderly error than complex truth" (Galbraith, 1991 [1967]: 77)

Outside of these considerations, Granovetter (1985) has argued that orthodox insights into the theory of the firm deal with an "*under*socialized conception of human action" (1984: 55, emphasis in original)[64]. Hence, there has been a tendency to treat human actors as if they had no discernible influence upon firm objectives, behaviour and institutions (Sayer, 1995). Put another way, as Robinson (1978) argued, it is difficult to think "industry, as opposed to commerce, could not have developed in an economy where the capitalists were all ruthlessly individualistic childless orphans. A

[64] Granovetter considers Marxist interpretations of economic activity as being *over*socialised given that economic activity is pre-determined by the place individuals occupy in the economic system. In general, it is difficult to reconcile orthodox Marxist thought with the growth of small business sector. This is for two reasons. First, as with neo-classical theories of the firm, Marxism has not been able to successfully resolve Coase's (1934) question of why there should be more than one firm in the world. Marx (1996 [1912]) held that the petty bourgeoisie (small businesses) would be swept away by increasing returns to scale and "a progressive diminution in the number of the capitalist magnates (who usurp and monopolise all the advantages of this transformative process)" (p.846). This would allow for the two main protagonists in this comedic vision – the bourgeoisie and the proletariat – to play out their respective roles. Secondly, as Reynolds' (1991) argues, Marx saw that the capitalist dynamic was based upon the accumulation of capital rather than on a process of innovation: "to make money, capitalists only needed to acquire capital, hire managers, select the latest technology and the rest was automatic. No entrepreneurial talent or management skill was required" (p. 51). In essence, therefore, the heterogeneity of small businesses is readily equated with the marginal position of the petit bourgeoisie and reduced to "the social organisation of work is simple, the span of authority small, the petit bourgeois concern cannot be given a bureaucratic structure" (Bechhofer and Elliot, 1986: 121).

successful business has a kind of personality, like a college, with which many, and successive, individuals identify themselves (p. 169).

This may, suggest, therefore, that whilst entrepreneurs may see themselves as on the margins of society, they may seek support, if only because it legitimises their conceptualisation of themselves.

This, though, is a weak interpretation of Granovetter's (1985) thesis. For him, human action is embedded in "concrete personal relations and structures" (p. 61). Actors do not act in an unremittingly opportunistic way but seek advantages through trust and co-operation: "small firms in a market setting may persist because a dense network of social relations is overlaid on the business relations connecting such firms and reduces pressures for integration" (p. 76). This, of course, is central to the work of Piore and Sable (1984).

4.3.ii. Social Forms of Support

It may, therefore, be that social networks made up of friends, family and business contacts are important in growth. This is certainly what has been found by researchers who have examined organisational emergence (Birley, 1985; Birley et al 1991; Aldrich and Zimmer, 1986; Szarka, 1990; Johannisson, 1986, 1987, 1995; Ostgaard and Birley, 1994; Brüdel and Preisendörfer, 1998; and Aldrich, 1999). Nascent entrepreneurs preponderantly use these networks because a) contact is frequent rather than ad hoc (reduces monitoring costs); b) the relationship is likely to be based upon trust and reprocity (limits any potential opportunism) and c) contact

involves risks (limits information asymmetries because agent (e.g. friend) shares 'risk' of advice to principal (nascent entrepreneur)).

However, besides Bennett and Robson (2000b), there is little substantive evidence to suggest that owner-managers of fast growth businesses rely upon social forms of support. Indeed, following Curran et al (1993) it may be that such support is not efficacious for growth businesses. Moreover, social arrangements may, if anything impair or prevent, if negative support is received, entrepreneurs making "entrepreneurial departures from the norm" (Aldrich, 1999: 81). Indeed, Birley (1985) has argued that "in using only his business contacts and family, the entrepreneur is likely to re-create the elements of previous employment, even when he may be starting a business in a different market" (p. 115-116.). This is a suggestion supported by Birley et al (1991) and Krueger and Brazeal (1994).

It may be, though, that once in business that owner-managers of smaller sized enterprises rely upon their transactional networks (Szarka, 1990). The evidence, particularly in terms of customers and suppliers is more clear-cut. Bryson et al (1993) and Bennett and Robson (1998, 2000a), for example, have shown that the customers and suppliers are the most valued source of support. Important though such relationships seemingly are, this thesis does not consider their role in supporting fast growth businesses.

4.3.iii. The Role of Brokers

Turning now to brokers, network theorists have suggested that the links between small business owner-managers and their brokers are likely to be limited. This is for a number of reasons. First, it is likely, when compared to social forms, that an *ad hoc* association typifies any contact with the broker. Hence, small business owner-managers may utilise such support when they recognise a particular issue or problem. Given, therefore, that the ties between the owner-manager are likely to be weaker than with their existing social network, their involvement with brokers is likely to be transactional. This may, therefore, promote opportunism and information asymmetries.

It is, however, recognised that brokers can play a useful or vital role in supporting business development. This is particularly likely when the owner-manager realises that their existing social networks lack the necessary heterogeneity to support the business (Aldrich, 1999). In terms of growing firms, Donckels and Lambrecht (1997) and Marshall et al (1993), for example, have shown that consultants can play an important role in supporting growth amongst smaller sized enterprises. Bennett and Robson (2000b) have also shown that solicitors and banks are more likely to be used by growing businesses whilst Holmes and Nicholls (1988, 1989), Holmes et al (1991), Hallett and Bishop (1991) and Kent (1994) have argued that accountants can play an important role in supporting fast growth businesses. This, of course, is not for altruistic reasons: "fast-growth firms are of interest to those providing advisory services - such as accountants, management consultants, etc. - because they are much

more likely to be seeking a wide range of advisory services than is the case for firms experiencing only modest growth or no growth at all" (Storey, 1994: 112).

The problem with Storey's suggestion is that there is contradictory evidence which suggests that market based approaches are largely failing to support fast growth businesses. For example, studies of the relationships between the banks and their small business clients have suggested that there is limited evidence of a close relationship (Chaston, 1993; Deakins and Hussain, 1994; and Deakins and Philpott, 1995). This may be largely due to the banks requiring collateralisation for the loans they provide for their small business clients. Although this is likely to limit the bank's exposure to opportunism, it is also unlikely that small businesses will turn to their bank for advice and support when they are experience turbulent trading conditions as they may feel that the bank will withdraw their loan. Travis (1992) and Hitchens (1997) have all also shown that the solicitors are failing to provide adequate support for their small business clients.

If, however, there were one type of broker that may be anticipated to be used by fast growth businesses, it would be most likely to be the accountant. One simple reason for this is that accountants are the most frequently used source of advice and support. Bolton (1971), for example, cited a 1969 survey by the British Chamber of Commerce that showed that accountants were most often used by small businesses. More recent evidence has also found this to be the case (Lewis and Toon, 1986; Chittenden et al, 1990; Townroe and Mallalieu, 1993; Atkinson, 1994; Curran and Blackburn, 1994 and the Bennett and Robson, 1998, 2000a).

The accountancy profession is also well placed for other reasons. Various studies (Lewis and Toon, 1986; Holmes and Nicholls, 1988, 1989; Holmes and Kelly, 1989; Holmes et al, 1991; Chittenden et al, 1990; Kent, 1994; Kirby and King, 1997) have identified that accountants can assume a more substantive position with their clients because of the importance of financial support to the small business, particularly given that many owner-managers have limited financial and financial management skills (Dunn and Cheatham, 1993; and Nayak and Greenfield, 1994). Indeed, the British Bankers Association (1998) have suggested that "small firms could do more to manage their finances effectively and need to recognise that good financial management is a key to greater profitability, business survival and a more enjoyable life as an entrepreneur" (p. 20). The British Chamber of Commerce (1996) have further shown that many small businesses have very moderate financial management skills with 55% of them having learnt financial skills through their own efforts. Moreover, Reid and Smith (2000), along with Gibb and Scott (1986) have also indicated that the owner-managers awareness of business matters is often very limited. This, therefore, may allow accountants to cross sell non-statutory services (e.g. management accounting, consultancy, etc.) following the provision of statutory services (tax compliance, company secretarial work, statutory accounts, and statutory audits).

Accountants also enjoy other advantages. Fama and Jensen (1983) and Casson (1996) suggest that the partnership arrangements typical of accountancy businesses allow the freer flow of information and thereby aid the development of consultative relationships with clients. Accountants are also not hamstrung – as the banks are – by acting as both a potential source of finance and a potential source of support.

Yet the available research tends to indicate that accountants largely confine their support to a limited statutory service. This is clear from a wide range of studies, both in Australia (Holmes and Nicholls, 1988, 1989; Holmes and Kelly, 1989; Holmes et al, 1991; and Kent, 1994), the US (Sen and MacPherson, 1998) and the UK (Lewis and Toon, 1986; Chittenden et al, 1990; Townroe and Mallalieu, 1993; Atkinson, 1994; Curran and Blackburn, 1994; and Kirby and King, 1997). As an example of this, Curran and Blackburn (1994) have suggested that "relationships with accountants were related mainly to financial advice rather than solving other business problems or linking business owners with an information and support network" (p. 94).

This failure or inability to support the business needs of either small businesses or fast growth businesses is well recognised by the accountancy profession (e.g. Parritt, 1994; Spofforth, 1995; and Sharman, 1997). Even a quarter of a century ago, Solomons (1974) suggested that "in the field of small practice, the auditor (or, often more correctly, the accountant in public practice) will need increasingly to involve himself in giving financial and other management advice" (p. 89). This, of course, is not simply driven by customer care considerations. The profession has long recognised (Solomons, 1974; Collier, 1984; Kaye, 1986; and Hopwood et al, 1990) that the pace of technological change is likely to make many of the services (e.g. preparation of accounts) that small accountancy practice rely upon potentially unprofitable. More recent technological change, the pressure from para-professionals and legislative change are also likely to severely impact on statutory services (statutory accounts, statutory audits, company secretarial work, tax compliance). Indeed, the Institute of Chartered Accountants in England and Wales (ICAEW) has

suggested that; "small firms of accountants will only succeed if they can successfully re-position themselves in response to changing market needs. Compliance work for tax and auditing – which will be under threat from competitive and regulatory changes – will have limited growth potential and may even decline" (ICAEW, 1996: 28).

There are a number of reasons why accountants are seen to fail their small business clients. Roslender (1992), for example, has suggested that the norms and mores of the accountancy profession limit their role to that of the 'expert'. This may, as Bolton (1971), Connor (1981), Yorke (1990) and Hitchens (1997) suggest, make it difficult for accountants to provide non-statutory advice and support: "there still survives in some accountants a traditional diffidence about venturing outside the strict limits of their professional function" (Bolton, 1971: 118).

A second reason for their failure to grasp their proximity to small business clients is that only 40% of trainee accountants do their training in small and medium sized practices. It is also recognised that the training of accountants has been focused upon technical competence rather than understanding business needs (Wyman, 1998). The consequence of these factors is, like bankers and solicitors, accountants are often perceived as lacking business awareness (Kirby and King, 1997).

By far the biggest problem faced by in accountants in delivering a management advisory service is that both the accountant and the small business owner-manager find it difficult to monitor each other activities. For the accountant - unlike the banks who have access to collateral to prevent moral hazard (Keasey and Watson, 1993) - there is no means of knowing if a client or potential client will act opportunistically

(e.g. seek to defraud the Inland Revenue). For small business owner-managers, there are few mechanisms available to them for monitoring the activities of the accountant. This situation is made worse by the intangibility of many accountancy services and the fact that much of the statutory services provided by accountants identify previous events rather than current or future issues. According to O'Farrell et al (1993) the problem is that "buyer uncertainty is a significant transaction cost in services due to information asymmetries in the buyer-seller relationship" (p. 44). Cost, which is one of the few tangible measures of an accountant's output, is, therefore often seen as an indicator, usually for the worse, of the accountant's performance (Townroe and Mallalieu, 1993).

It is often suggested that the professional service providers such as accountants overcome information asymmetries and the intangibility of their products by recourse to signalling their reputational stock (Stigler, 1968; Klein and Leffler, 1981; Ricketts, 1987; Davis, 1990; Morgan, 1990, 1991; O'Farrell et al 1993; and Hitchens, 1997). The use of reputation brings with it many benefits. For the client, reputation is a means of saving on search costs: "reputation is a word which denotes the persistence of quality, and reputation commands a price (or exacts a penalty) because it economizes on search" (Stigler, 1968: 187). For the professional service provider there are other benefits. First, reputational pricing structures, often deter low cost providers from entering the market (Casson, 1982) and, therefore, may limit opportunism (i.e. malpractice) (Klein and Leffler, 1981). O'Farrell et al (1993) have also suggested that reputation is difficult to imitate and, therefore, may allow businesses with a strong reputation to succeed in the market place. A third advantage of reputation is that it may act to signal to potential clients the value of a provider's

service. In essence, therefore, "reputation benefits the trading partners, because they are able to make trades which might otherwise seem too risky, and it also benefits the reputable party, for he is able to trade at a more favourable price than his less reputable competitors" (Casson, 1982: 175-6).

Such signalling, particularly given the intangible nature of accountancy services, is often discreet. Morgan (1990, 1991), File et al (1994), O'Farrell et al (1993) and Bryson et al (1993) have all indicated that professional service providers typically use informal means to communicate the reputation of their service. Hence, it is suggested that accountants, like other professional service providers, place great reliance upon word-of-mouth contacts and informal links with existing clients or third parties such as the banks and solicitors. Little emphasis is placed upon direct marketing or advertising. This is for two reasons. First, accountants, particularly in smaller sized practices, have been found to have a limited understanding of direct marketing (Diamantopoulos et. al., 1989; Hallett and Bishop, 1991). Second, such formal mechanisms may be seen as being antithetical to the 'professional' culture of accountants, and, therefore, may stigmatise their reputational capital (Morgan, 1991).

The use of reputational capital and informal communications strategies may, however, not provide the optimal means of overcoming the information asymmetries inherent in the accountant client relationship. One reason for this, as we have seen, is that accountants have a tendency to assess their reputational stock in terms of technical excellence.

> Given the importance attached to technical service excellence, it may well be that professional accounting firms base their professional reputation and firm image upon the technical quality of their services. If this is so, then without a

> coherent marketing communications strategy it is difficult to see how potential customers – those who have yet to experience the technical service excellence of a particular firm – can be made aware of the firm's professional reputation and image. (Morgan, 1990: 610-11)

Furthermore, in terms of existing clients, there is very little evidence to suggest that accountants market to potential or existing fast growth businesses (e.g. Holmes et al, 1991 and Kent, 1994). The implication, therefore, is that accountants would appear to be failing fast growth businesses. As we have seen, however, there is only limited evidence of such failure. This issue will be taken up in later chapters of this thesis.

4.3.iv. The Role of Network Substitutes

If we presume for the moment that accountants are failing to provide market-based solutions, it may be that there is a role for organisations that seek to act either to supplement or complement existing sources of support (network substitutes). Over the last twenty years, we have seen that there has been an increased provision of such support through agencies such as the Chambers of Commerce, Trade Associations, academic institutions and through government sponsored programmes. In the last ten years, these services have increasingly come together (House of Commons Trade and Industry Select Committee, 1998; and Bennett and McCoshan, 1993) so that, for example, Chambers of Commerce now provide rent free accommodation to support providers such as the Business Links or combined to form Chambers of Commerce, Training and Enterprise (CCTEs[65]).

[65] 13 of these were operational in 1998 with a further 6 planned (House of Commons Trade and Industry Select Committee, 1998)

One problem with this non-market based approach to support is that there are theoretical concerns about the validity of government funded support and the agents (e.g. TECs, Enterprise Agencies, Business Links, academic institutions, Chambers of Commerce, trade associations) that often deliver such support. Bennett (1996) for example, has suggested, using agency theory, that it is inequitable both for the wider business population and perhaps even for the individual small business to receive support. This is largely because public support agents face information asymmetries in any selection procedure either due to the risk of adverse selection (support for risky businesses) or because of moral hazard (businesses take risks that would not be supported by the market). Moreover, because it is unlikely that any public support provider will actually take equity in a business, Bennett (1996) has gone on to argue that such risk neutrality makes it unlikely that such support providers will have the appropriate incentives to improve the prospects of the business. Such an argument is not new:

> the 'missionary' adviser has not only to persuade the businessman that a given course of action will result eventually in higher profits, but also that the risk is low enough to make the project worthwhile: and invariably the businessman's assessment of the risk will be more cautious than the missionary's since it is he, and not the missionary, who will have to bear the consequences of mismanagement (Bolton, 1971: 115)

Consequently, the network substitute may, in making poor choices, just increase the likelihood of displacement and deadweight occurring. It is also possible that such support may 'crowd out' existing and valuable brokerage services either by confusing the owner-manager or by simply offering substitute services to the owner-managers at prices that the broker cannot economically meet. This, in turn, may lead in the long run to the diminution of sources of support for small businesses.

To overcome these practical and theoretical concerns, Storey (1993) has suggested what he considers is a tractable policy for the positive discrimination of fast growth businesses. This is based upon a two-stage procedure. First, he believes that a localised public support provider needs to "identify firms according to four criteria. The criteria are that the firms should be between three and five years old, cover all sectors, have at least 20 employees and be independent businesses in the sense of not being owned by any other firm" (p. 23). Having identified such business, Storey suggests that contact be made with such businesses to ascertain their expansion plans. Many of these businesses will require no assistance, Storey believed, because either they are not interested in expansion or in dealing with public support providers. For the remainder, Storey envisaged that any public support provider could assist with supporting a business overcoming a particular management crisis in the business. Moreover, any public assistance should "find out what problems the firm had, rather than to inform the firm about what assistance is available. In this sense the provision of advice services has be demand, rather than supply, led" (p. 16).

There are, almost inevitably, problems with such an approach. Storey's emphasis on the provision of support to 'all sectors' would include sectors such as independent food retailing which have declined markedly. Smallbone (1997), although concurring with a discriminatory policy, has argued that it may be more appropriate to target particular sectors (see also Curran and Blackburn, 2000). This, of course, does not deny that there will be growth businesses in declining sectors, but suggests that it may be more appropriate to consider growing sectors such as identified by Bryson et al (1997).

Any discriminatory approach, however, is likely to run foul of other problems. Setting criteria for exclusion may mean that businesses beyond the thresholds adopted are missed. As such, therefore, displacement may result: "[growth] can be a very discontinuous process and some very mature firms can demonstrate fast growth during certain periods even after a long period of stagnation" (Smallbone, 1997: 134).

In practice, it is also clear that discriminatory support has been poorly received. In the early 1990s, the DTI, heavily influenced by Storey's contribution (House of Commons Trade and Industry Select Committee, 1996: xxxviii), embarked upon a radical attempt to slant public policy support away from supporting start-ups to an attempt to improve the quality of existing businesses. This was to be delivered through the creation of Business Links[66] which would:

> change the existing plethora of business support agencies and services into a comprehensive range of high-quality services available through a single point of access, and thereby raise the general management of small firms. There was also to be a shift in emphasis from start-ups and micro-businesses towards established businesses with the potential to grow (House of Commons Trade and Industry Select Committee, 1996: xi).

Problems with such an approach, however, became quickly apparent: Personal Business Advisers[67], employed to develop and look after a portfolio of 'growth' businesses, did not seek 'growth' businesses (Sear and Algar, 1996); they lacked the

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[66] Business Links were first announced in 1992 by the then President of the Board of Trade, Michael Heseltine. Six pilot areas were chosen in April 1993 (Birmingham, Halton, Hertfordshire, Manchester, South and East Cheshire and Hereford and Worcester). This was extended to all areas in July 1993.

[67] The creation of Personal Business Advisors was the only wholly new innovation in business support to small businesses to go with the creation of Business Links. Its other services – the provision of an information service (an enquiry and helpdesk service), a diagnostic review service (identification of business strength and weaknesses) and the provision of specialist services (innovation and technology, design and exports) - existed prior to the creation of Business Links.

appropriate mix of skills or experience (House of Commons Trade and Industry Select Committee, 1996); the adoption of a size definition for growth businesses of between 10-200 employees was ill-considered (House of Commons Trade and Industry Select Committee, 1996); and it was impossible for one source of support to provide businesses with all their relevant needs (Forum of Private Business, 1996).

Such charges may only point to the failure of policy providers to construct a judicious set of network substitute policies. For supporters of discriminatory policies, it may just be that policy providers have, as yet (see Curran, 2000), not identified the appropriate mechanisms for supporting fast growth businesses.

4.4. Conclusions

This chapter has shown the difficulty in identifying the characteristics of fast growth businesses. Indeed, although advocating a discriminatory policy towards fast growth businesses, Storey et al (1987) have counselled that "it is not suggested that it is possible to devise an identi-kit picture of a successful company which is likely to create significant numbers of new jobs" (p. 170). The review of studies in the first part of this chapter that looked at the owner-manager, their business and their business activities would seem to bear this out. Factors such as the educational attainment level of the owner, their age, a willingness to share equity, the size of a business, their legal form (limited company) and continued change to the activities of a business may all contribute to the growth of a business. Alternatively, we have also seen contradictory evidence to suggest that such factors may not be important.

This chapter has also suggested that support is likely to be used by growth businesses. Such support may or may not contribute to such growth. Moreover, even if it does, it is unlikely to be the sole factor in promoting growth. It is also apparent that there have been few empirical investigations into the contribution of support. Indeed, whilst social support has been found to be particularly efficacious for emerging organisations there is little evidence of their contribution to fast growth firms. Other evidence on brokers has shown that they are faced with particular problems in dealing with their small business clients. By concentrating upon the relationship between accountants and their small business clients, we have seen that available studies have indicated the failure of market based approaches to support. In terms of accountancy support, it was suggested that this is for four reasons: the professional nature of accountants; inadequate training; the intangibility of their services; and information asymmetries. This may raise questions about how accountants should respond to their clients and the value of brokerage services, particularly in relatively economically deprived areas such as the Northern region of the UK.

Yet, at least in the UK, there have been few studies that have explored in a systematic manner whether this suggestion is valid. Moreover, even if there were evidence of market failure, it remains unclear if public and quasi-public provision of support can effectively provide substitute networks for fast growth businesses in such regions. Although Storey (1993) has argued that there is a need for public provision of support to overcome market failure, there are substantive theoretical and practical difficulties. Indeed, in terms of public support provision in the 1990's we have seen that such services has been patchily introduced and their value may be wondered at. This, of

course, may only suggest that, as with accountants, network substitutes have failed to find the correct mix of policies to support fast growth businesses. Alternatively, policies in support of fast growth businesses, regardless of their appeal, may prove intractable. If so, this may raise serious questions about the provision of such support.

Chapter 5: Derivation Of The Hypotheses

5.1. Introduction

Perhaps the most important contribution of Chapter 2 was the evidence that suggested that the Northern region of the UK was the least entrepreneurial region of the UK. This, as we saw, could be for a number of reasons: an over-reliance upon foreign direct investment, the lingering enthusiasm for heavy manufacturing industry, the limited skill-base of the region or the failure to adequately promote an enterprise culture.

One potential solution to such problems, although not the only one (Curran, 1999), is to try to increase the employment capacity of small businesses in the region. This is often advocated, following Birch (1979), as a solution to high levels of unemployment and a perceived lack of entrepreneurship. In order to achieve this, this thesis has argued that there is a need to delineate employment generation processes in the region, the use of support mechanisms and the particular role of accountancy support.

This chapter, therefore, discusses and develops eleven hypotheses that examine these issues. These hypotheses are subsequently tested in later chapters of the thesis.

5.2. The Hypotheses

This first hypothesis seeks to investigate the relative 'fertility' of smaller sized businesses. To examine this in an optimal way, it would have been appropriate to replicate the five studies identified in Chapter 3 (Gallagher and Stewart, 1986a; Doyle and Gallagher, 1987; Gallagher et al, 1990; and Daly et al, 1991; and Gallagher, 1993) using the same methodology and estimation techniques. Such research would require access to information on new starts, expansions, contractions and deaths (components of change) as well as information on all size classes of businesses. This information was not available to this research[68]. Nevertheless, the research does attempt, albeit in a partial manner (expansions - contractions in certain size classes), to assess the contribution of differing size classes of small businesses to job generation. But, as this is an incomplete components of change analysis, the following null hypothesis is suggested:

H1: There is no difference in the net fertility rates between sizes of business.

We also saw in Chapter 3 that there remains considerable controversy over the actual contribution of the smallest employment size categories of business. These doubts manifest themselves in concerns about the statistical basis of previous findings, evidence that most small businesses fail, that most small businesses operate in a non-maximising manner, and that only a small percentage of businesses contribute to employment generation. This might imply it is misguided to focus upon the net

[68] Despite the limited information in the 1990s on job generation in the UK (e.g. Barkham et al, 1996), it was also judged that it was more important to consider why job generation occurred rather than what was the contribution of particular size classes in the Northern region

fertility of particular size classes of business. Instead, Storey (1985) and Birch et al's (1997) evidence suggest that we should be looking to a small number of fast growth businesses for the bulk of employment creation. If so, then it may be anticipated that the following null hypothesis will fail to hold:

H2: Over a given period, employment generation is normally distributed amongst businesses.

If, rather than being normally distributed, we find that employment generation is highly skewed, Chapter 4 showed that this only led to further difficulties. For instance, it has proved particularly difficult to identify which characteristics of the business, its activities or of the individual entrepreneur contributed to the growth of businesses. It may be, indeed, that we will never be able to predict which businesses are the most likely to grow. However, if we assume that previous growth is a potentially useful means of indicating further growth (Hakim, 1989), then this thesis has argued that understanding what types of support are most likely to be used by growth businesses may help us delineate much more clearly ways in which support can be configured in the Northern region of England.

Empirically, even though there are a number of studies that have sought to investigate support for small sized enterprises, there is less evidence on support use by fast growth businesses. To aid our interpretation of such support, four forms of support were proposed: no support; support provided by social networks; support by brokers; and support by network substitutes. Such sources of support on their own are unlikely to account for the all of the available variability. Hence, to better control for their use,

firm characteristics (e.g. size, age, and legal form) are suggested. This leads to the third hypothesis:

H3: Controlling for firm characteristics, there will be no difference between the use of 'no support', social networks, brokers and network substitutes by small employment growth businesses.

The previous chapter also identified that accountancy support was the most frequently used source of support by small businesses. Further evidence also indicated that accountants were perceived to have a limited relationship with their small business clients. There are, of course, various facets of this relationship. Besides the actual perception of the relationship, it may also be thought that the geographical proximity of the accountant and the length of the relationship may help explain the use of accountancy support by the small business client. This may differ for small employment growth businesses. This leads to the fourth hypothesis:

H4: Small employment growth businesses have a similar relationship with their accountant compared to other small businesses.

It may also be anticipated that there are likely to be some differences in the configuration of accountancy support used by small employment growth businesses. Typically, a small business has a wide range of accountancy support available to them. These may be distinguished into two types of support: statutory and non-statutory provision. Statutory provision is made up of four types of service: statutory accounts, statutory audits, tax compliance and company secretarial work. Non-

statutory support comprise nine services: the preparation of accounts, tax consultancy, non-statutory audits, payroll/PAYE, management accounting, management advisory services, general financial advice, insolvency services and non-accountancy services (e.g. marketing, IT support).

Statutory support may be thought of as the services that a small business is likely to need in order to comply with the Inland Revenue or other statutory bodies. Hence, although these services may provide a business benefit for the business in supplying largely historical information on its performance (Curwen, 1976; Jarvis, 1996; and Keasey and Watson, 1993) it is suggested that these may be thought of as being compliance rather business orientated support.

However, not all of the non-statutory support available to the small businesses are necessarily 'business' services that seek to promote effective management practices and controls. For example, the preparation of accounts and non-statutory audits are more related to compliance functions as the former is essential for appropriate auditing whilst the latter is typically used by sole proprietorships or partnerships who usually have some requirement to produce audited accounts[69]. Similarly, it may also be thought that insolvency services are little used by businesses that are growing.

Other distinctions are also evident. General financial advice and tax consultancy are often more likely to be used for personal rather than business reasons whilst it may be argued that the provision of payroll and PAYE is a quasi-statutory service. Small businesses, however, may have a variety of reasons for using these services. This

[69] This may be due to a variety of reasons. For example, such businesses the Inland Revenue or the bank may require a non-statutory audit in order to appropriately evaluate their business

thesis, therefore, sees no value in being overly prescriptive. As such, it suggests that the 'business' support offered by accountants should be defined in terms of the following non-statutory services: general financial advice, tax consultancy, payroll and PAYE, management accounting, management advisory services and non-accountancy services.

It may, consequently, be hypothesised that these fast growth businesses are more likely to use such these non-statutory business services. The evidence to point to this is, however, equivocal and, as such, the following hypothesis is presented:

H5: Small employment growth businesses are no more likely than other small businesses to make use of non-statutory business support.

Any use of non-statutory business support by small employment growth businesses does, of course, presume that the owner-managers of such businesses are aware of such support. In the previous chapter, we saw evidence that small business owner-managers, in general, may be less than adept at recognising advantages in the use of such support. It is, however, difficult to prove this, particularly as small business owner-managers may a) be ignorant of such support; b) misunderstand the value of such support due to the intangible nature of such support; or c) be put off by the adoption of the 'expert' role (information asymmetries) by the accountant.

As a solution to these potential problems, the previous chapter suggested that uninformed consumers of accountancy support were more likely to use 'cost' as a mechanism for evaluating such support. More discerning consumers were suggested

to rely more on the reputational capital of the accountant disseminated through the accountancy practice's activities or by other support providers (e.g. third parties such as the banks). This leads to the following hypothesis:

H6: The selection criteria used by small employment growth businesses for non-statutory business support do not differ from those of other small businesses.

As well as the selection criteria adopted by the small employment growth business owner-manager, it may be that the perceived advantages and disadvantages in using such services may also moderate the use of non-statutory support. If so, it may be that small employment growth businesses have differing reasons for using such support. Hence, not only would they be more likely to perceive the reputation of the accountant, they would be more likely to perceive business rather than personal advantages in such support and somewhat less likely to see disadvantages in such support when compared to other small businesses. But, in the absence of substantive evidence to suggest this, the following hypothesis is offered:

H7: Small employment growth businesses are likely to perceive similar advantages and disadvantages in the provision of non-statutory business support to that of other small businesses.

If there are any difficulties in the relationship between the accountant and the small business client, this may be due to the failure of the accountant to supply appropriate non-statutory support.

At one level, the supply of non-statutory support may simply be constrained by the

failure to actually supply such support. This is likely to be moderated by three factors. First, it may be supposed that the size of the practice will temper the likelihood of the provision of such support. Another factor that is likely to influence the provision of such support is the geographic scope of the practice. Finally, it may also be expected that the particular age of the practice has some bearing on the likelihood of the provision of non-statutory business support.

Related to this issue, it may also be thought that the supply of such support is likely to be modulated by the importance of such support to the fee-income of a particular practice. Some accountancy practices, for example, may see advantages in such a strategy, particularly if they are following a differentiation approach (Porter, 1980). Alternatively, others may have elected to rely upon statutory services for the bulk of their fee-income. Consequently, it may be that the supply of non-statutory business support is constrained by the importance of statutory work to the accountancy practice. This, again, is likely to be moderated by the age, size and geographic scope of an accountancy practice. Taking these two components of 'supply' together, the following hypothesis is suggested:

H8: Taking into account the age, size and geographic focus of the practice, accountants are just as likely to supply non-statutory support as statutory support.

A further aspect of any supply-side deficiency is that the accountant may perceive informational asymmetries in their relationship with their clients. These, again, may be affected by the age, size and geographic scope of the practice. In general, accountants may perceive that the owner-manager fails to recognise the appropriate signalling of non-statutory support. If so, it may be anticipated that accountants will

perceive that owner-managers regard the cost of non-statutory support as being pre-eminent. Alternatively, it may be supposed, if signalling is working appropriately, that owner-managers recognise the reputation/quality of a practice. This leads to the following hypothesis:

H9: Taking into account the age, size and geographic focus of accountancy practices, accountant's perceive that small business clients make no distinction between the selection criteria they adopt for the provision of non-statutory support.

There are two other facets to the relationship. The owner-managers' awareness and take-up of non-statutory support may be affected by the level of contact accountants have with their clients. Practices that have greater level of contact, all other things being equal, may be anticipated to be in a better position to overcome the intangibility of non-statutory support. A further feature of the relationship is who is responsible for initiating the provision of non-statutory work? If it is accountants, through, for example, direct marketing or approaches to the client, it may be expected that there is little in the way of a supply-side deficiency. If accountants offer such support and these are subsequently rejected, then there is little more that the accountant may do. However, it may also be the case that it the client rather than the accountant who proposes non-statutory work. If so, this may indicate further evidence of supply-side problems. This leads to the following hypothesis:

H10: Taking into account the age, size and geographic focus of accountancy practices, accountants are no more proactive than their small business clients in suggesting the use of non-statutory support.

It may be anticipated that *H8*, *H9* and *H10*, are likely to over-emphasise any supply-side problems. After all, if small employment growth businesses number only a small percentage of the available business population, it may be that only a limited number of accountants will be able to service this niche. Thus, whilst all accountants may recognise that small employment growth businesses offer them the opportunity to increase the level and intensity of their services, only a minority of practices will feel that they are capable of offering support to this group of clients. This, again, is likely to be affected by age, size and geographic scope. Nevertheless, holding these factors constant, it may still be supposed that there are likely to be differences between those accountancy practices who target growing businesses and those that do not.

These differences are likely to manifest themselves across a number of dimensions. For example, it may be that those accountancy practices are more likely to offer non-statutory business support. They may also derive more of their fee-income from such sources. Furthermore, the behaviour of these practices may differ. Such practices may perceive that there are fewer information asymmetries resulting in their relationship with such clients. Hence, accountants may perceive that their provision of non-statutory support is less likely to beset by 'cost' issues and clients are more likely to be orientated towards the 'reputation/quality' of the practice. It may also be suggested that such practices are more likely to be in more frequent contact with clients and that they perceive that it is they, rather than the client, who initiates the provision of non-statutory support.

The evidence, however, on this is not clear. Accountants are often exhorted to provide non-statutory support to fast growth clients on the basis that they will be able

to identify and support further growth (e.g. Kent, 1994; Holmes et al, 1991; and Chittenden et al, 1990). There is, though, only limited evidence either way to suggest that they are doing so. Hence, the final hypothesis suggests that:

H11: Independent of age, size and geographic scope, accountancy practices that target growing companies are no more likely to behave differently than those practices that do not target such businesses.

5.3. Conclusions

This chapter has presented eleven hypotheses in order to appropriately examine the employment generation processes in the Northern region, the use of support mechanisms, and the particular role of accountancy support. Specifically, *H1* and *H2* chart the employment generation capabilities of the smaller sized enterprise whilst *H3* attempts to assess, independent of firm characteristics, the use of a variety of sources of support.

H4, *H5*, *H6* and *H7* address the relationship between the small business and accountancy support. This is judged important, over and above *H3*, because such support has traditionally been the most commonly used source of support by smaller sized enterprises. *H4*, therefore, looks at the nature of the relationship between the small business and their accountant across three dimensions (geographic location, length of relationship and perception) whilst *H5* investigates if small employment growth businesses are more likely to make use of non-statutory business support (tax consultancy, management accounting, management advisory services, general

financial advice, payroll and PAYE and non-accountancy services). *H6* continues this exploration by considering the selection criteria used by small employment growth businesses in selecting an accountant for non-statutory support. Related to this, *H7* considers if there are any perceptible differences in the advantages or disadvantages that small employment growth businesses and other small businesses ascribe to such support.

H8, *H9*, *H10* and *H11* all seek to consider the accountants' relationship with the small business. *H8* suggested that, if there is any discernible supply-side deficiency this may be due to a failure to offer such support or because they are considered less important to the fee-income of the practice. Other features of the relationship are also considered: *H9* considers if accountants perceive that their small business clients face difficulties in selecting an accountant for the provision of non-statutory work; and *H10* examines the likely direction by which such support is initiated. Finally, *H11* suggests that only a small number of accountancy seek to target fast growth businesses. If this is so, it goes on to conjecture that there will be differences between the behaviour of these practices – across a number of dimensions – and those practices who do not elect to target growing businesses.

Chapter 6: Methodology

6.1. Introduction

There are a number of issues that stand in the way of appropriately investigating the use of support (particularly accountants) by fast growth businesses. One such problem, so far neglected in this thesis, is that there are definitional issues as to what actually constitutes the 'small' business. In part, this is because the small business is, quintessentially, a relative concept. As such, it is, perhaps, unsurprising that there are a number of qualitative and quantitative definitions of the small business. Each of these has advantages and disadvantages. This chapter suggests the use of the Companies Act (1985) definition, although, like other definitions, it is recognised that this is a partial and arbitrary definition.

There are also other difficulties in attempting to assess employment growth. One such difficulty is that growth is sensitive to the use of the particular metric used (e.g. relative, absolute or log transformed) (Delmar, 1997). In attempting to control for this issue, three differing growth metrics are suggested (relative, absolute and a combination of the two). A further confounding issue in measuring growth is that the macro-economic context at a national or regional level (e.g. high inflation, rising GDP) may impact upon employment growth performance of small businesses. Whilst recognising these macro-economic issues, they are not controlled for in this thesis. Similarly, although it is understood that growth is also sensitive to the length

of time over which growth is measured (Delmar, 1997) no attempt is made to control for this issue.

Other issues that may impact upon the reliability of the research is the use of biased (Cooper 1993) or unreliable datasets (Birley et al, 1995). To control for this, the chapter suggests that the use of the Yellow Pages' database for small businesses and the ICAEW directory for accountants.

The chapter goes onto to detail the development of the survey instruments, the operationalisation of the hypotheses and the data collection techniques. It concludes with tests of representativeness and response bias on the two data sets. We begin with attempting to define the small business.

6.2. Defining the Small Business

Perhaps one of the earliest attempts to define the small business was suggested by Bolton (1971). Bolton proposed both a qualitative and quantitative approach to defining the small business. In terms of a qualitative definition, Bolton suggested that businesses were small if they had a small share of their market, were run in a personalised manner and were independent of larger enterprises[70].

[70] Keasey and Watson (1993), in what is essentially a reformulation of Bolton (1971), have suggested that what distinguishes the small firm is: a lack of publicly organised secondary market for small firm equity and debt; the relative lack of separation of ownership from control; owner-managers have relatively undiversified portfolios and often lack limited liability; owner-managers have a relative lack of managerial resources; and experience high fixed costs in their business. Similarly, Wynarczyk et al (1993), have argued that what distinguishes small firms from larger businesses is that they have a relatively higher degree of uncertainty; that they are likely to be price-takers; have a limited customer and product base; and are much more dependent on the motivations of their owner-manager.

Such a definition does have its problems. Storey (1994), for example, has criticised Bolton's qualitative definition because it remains unclear as to when exactly the locus of management control shifts from the owner-manager to a functional or hierarchical management structure. Related to this, Johnson (1987) has also shown that 'independence' is a relative concept: some businesses, whilst legally independent, may be entirely reliant upon one large enterprise for their economic activity. On the other hand, some enterprises with two or more establishments may expect each of these establishments to function independently.

Problems are also evident in quantitative definitions of the small business. For example, Bolton's (1971) attempts to reflect the range and diversity of small businesses (Table 6:1) runs foul, as Storey (1994) indicates, of: a) in desiring to take account of sectoral differences, Bolton (1971) presents no uniform definition; b) inflation makes it difficult to use turnover as an accurate gauge of 'smallness' over time; and c) employment based methods fail, over time, to take account of the effects of productivity.

Table 6:1: The Bolton Report's (1971) Quantitative Definitions of the Small Business

Sector	*Definition*
Manufacturing	200 employees or less
Construction	25 employees or less
Mining and quarrying	25 employees or less
Retailing	Turnover of £50,000 or less
Miscellaneous Services	Turnover of £50,000 or less
Motor trades	Turnover of £100,000 or less
Wholesale trades	Turnover of £200,000 or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

Source: Bolton (1971)

Although Bolton's definition has its failings, it is also clear that there are difficulties with other suggested indicators of 'smallness'. For example, another definition is the Companies Act (1985). This suggests that small businesses are those that have a balance sheet of less than £1.4 million of assets, a turnover of less than £2.8 million and have fewer than 50 employees[71]. An obvious criticism of this is that it is insensitive to sectoral differences. Furthermore, beyond the difficulties with using employment and turnover measures, Keasey and Watson (1993) have argued that it is enormously difficult to gauge the net asset structure of a business due to the diversity of accounting practices.

Similar problems are also evident when the DTI's definition is considered. This uses a single employment based measure[72], and suggests that businesses may be considered to be 'micro' if they have 0-9 employees or 'small' if they have 0-49 employees[73]. The European Commission definition also uses the same employment criteria (Table 6:2) but also seeks to define businesses according to their level of independence, assets and sales.

Table 6:2: European Commission's Definitions of Enterprises[74]

	Micro firm	Small firm	Medium firm
Turnover	N.A.	7 m euros max.	40m euros max.
Balance Sheet	N.A.	5m euros max.	27m euros max.
Employees	max. 10	max. 50	max. 250
Independence Criteria	N.A.	25%	25%

Source: Bank of England, 1999

[71] A medium sized business is said to have a turnover between £2.8 million and £11.2 million; employs between 51 and 250 employees; and has a balance sheet of between £1.4 million and £5.6 million.
[72] The British Bankers Association also use a single measure to define small businesses. They suggest that businesses are small if they have a turnover of less than £1million.
[73] A medium sized firm has 50-250 employees.
[74] To qualify as a small or medium sized enterprise, both the employee and the independence criteria must be satisfied, and either the turnover or the balance sheet criteria. A large firm is any not satisfying the above criteria.

Both qualitative and quantitative definitions also share a further problem. Davidsson and Wiklund (2000) in their review of firm growth, suggest that businesses often mutate, both in form and structure, over their life-span. Hence, they argue, after Heisenberg's uncertainty principle, that: "you cannot simultaneously determine the firm's identity and study its growth" (p. 29).

Faced with this range of alternative definitions - and the problems each bring - it is perhaps unsurprising that a variety of differing definitions have been adopted to assess growth. Delmar (1997), in his review of 55 growth related articles, has indicated that the most common definition was based upon turnover/sales (31%) with employment (30%), multiple indicators (18%) and performance (13%) the most common alternative measures.

To help guide the selection of an appropriate definition for this thesis, a number of informal interviews were conducted with 'informants' in the Northern region of England. Although these interviews were designed primarily to sharpen the understanding of the relationship between the small business client, their accountant and other support providers, those interviewed were also asked to suggest a suitable definition for the small business in the Northern region. Of the 21 individuals

informally interviewed[75], 15 suggested definitions of 'smallness'. These, of course, varied. For example, a partner in a multinational accountancy practice suggested that a turnover of less than £8 million identified a small business. In contrast, the modal average turnover definition was £100,000 (six mentions) and the modal employment definition was 10 employees (five mentions). This, in itself, is perhaps of some interest as the tendency was to equate smallness with a definition more suited to that of a 'micro' business.

It may, therefore, have been appropriate to consider a small business in the Northern region as having a turnover of less than £100,000 and 10 or fewer employees. Other factors, however, militated against this: the research sponsors were unhappy with this definition partly because it may have not been so relevant in other regions of the UK. Another reason for their hesitation was that they considered the Companies Act (1985) definition as the most appropriate because it is the one most commonly used by their members. Faced with this *fait accompli*, it was decided to adopt the Companies Act (1985) definition.

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[75] To identify suitable individuals who had some understanding of small businesses in the Northern Region, attempts were made to interview individuals that both ran small businesses in the region and individuals from the region's support network. To facilitate this early stage of the research, contact was made by letter to the Regional Presidents of both the ICAEW and ACCA. Interviews were arranged and conducted with these individuals. Further letters were also written to nine other accountancy practices. For all of these individuals it was possible to arrange and conduct interviews. Contacts from within Durham University Business School also furnished access to a Liaison Officer from a TEC, two Personal Business Advisers from Business Links, a Chief Executive of an Enterprise Agency and a Chief Executive of a Business Link. Further interviews were also conducted with Small Business Advisers from two of the major clearing banks. Gaining access to small businesses, though, proved more difficult. Eight businesses were initially identified (based upon recommendations from DUBS contacts) but in the end it only proved possible to interview four owner-managers. Even, here, though, it was only possible to interview two small business owner-managers as other commitments prevented the conduct of the other two interviews. All of these interviews were conducted between 10th April 1996 and 20th May 1996. The length of the interviews varied considerably from a basic 15 minutes to about an hour. Questions, although not formalised, focused around the relationship between the role of the accountant, the small business client, and the use of other sources of support.

That, though, is not quite the end of the story. For the purposes of this thesis, it was decided to forgo the use of the turnover and net asset parameters used in the Companies Act definition. This is principally because this thesis is largely about attempting to understand the support used by fast growth businesses in peripheral regions such as the Northern region. In doing so, this should not imply that the employment measure (fewer than 50 employees) is necessarily superior:

> Ultimately, debates about definition turn out to be sterile unless size is shown to be a factor which influences the 'performance' of firms. If it were possible to demonstrate that firms below a certain size clearly had a different performance from those above that band, then the definition has real interest. In practice, however, such clear 'breaks' are rare, and size appears to be a 'continuous' rather than a 'discrete' variable (Storey, 1994: 16).

6.3. Measuring Growth

Regardless of whatever definition of the small business is adopted, it is likely, in assessing growth, that a number of other problems are likely to present themselves. One problem, as Delmar (1997) indicates, is whether the dataset is cross-sectional or longitudinal. Ideally, employment change would be better understood using longitudinal data, particularly if this is over a longer period of say ten years (Storey, 1985). The use of longitudinal data or a similar time period was not available to this research. Instead, this research seeks to examine employment change over a two-year period: 1994-1996. This time period is relatively common: Delmar (1997) found that the most common period of study was five years (24%) closely followed by one year and (22%) and three years (16.4%) whilst a two year period was used in 7.3% of the studies that he reviewed.

The time period of the study is also likely to be effected by the business cycle. These are likely to impact upon employment growth (see Storey and Johnson, 1986). Although these are important issues, this thesis, like very many other pieces of small business research (e.g. Cosh and Hughes, 1998; Bullock et al, 2000), does not control for macro-economic change[76].

Another problem, particularly in terms of *H1* and *H2*, is that employment growth will be dependent upon the size classifications and the base year taken. In some senses, this is an unavoidable problem: size classes are inevitably arbitrary whilst it is often difficult to optimally suggest that the first year of the study rather the last year of the study should be used as the base year. This study, however, decided that employment change should be measured from the current employment level (1996) rather than the previous employment level (1994). This was because, following Ashworth et al (1998), it may be that the current level of employment is better understood by small business owner-managers than future or previous levels of employment.

Another problem, particularly in relation to *H3*, *H4* and *H5*, is that there remain differing statistical methods for assessing growth. Delmar (1997) has shown that growth was calculated relatively in 51% of articles he reviewed whilst an absolute measure was adopted in 29% of cases. Besides this, 11% of articles used a log absolute transformation and 6% used a log relative transformation. The use of the two principal growth measures bring their own problems: "A relative measure will

[76] Bardgett (2000) has shown that the period 1994-1996 saw the UK emerge from the recession of the early 1990s.

favour growth in small firms, whereas an absolute measure will bias the results in favour of larger firms" (Delmar, 1997: 203).

To control for this, this thesis decided to investigate employment growth using three different metrics. The first of these is relative employment growth (REL_EMP), the second is absolute employment growth (ABS_EMP) and the third measure is a combination of these two (LOGITEMP). As the next chapter will show, it was inappropriate to consider using log-transformed measures of employment growth as the data contained negative and zero values.

At the univariate level, the subsequent analysis does rely, to some extent, on arbitrary measures of employment growth (see Barkham et al, 1996; Cosh and Hughes, 1998; and Bullock et al, 2000). Hence, in terms of the REL_EMP metric, the univariate analysis suggests that 'fast' growth businesses are those whose employment grew by more than 25% over the two year period of the research (1994-1996). With regard to ABS_EMP, the univariate analysis measures 'fast' growth businesses as those who added 5 more workers over the study period. LOGITEMP combines these two measures (+25% and +5 workers) to provide additional insights into 'fast' growth. At a multivariate level, both REL_EMP and ABS_EMP do not use these arbitrary measures although, due to data considerations, this is not possible with LOGITEMP.

It is further likely that any multivariate results will be different depending upon the particular statistical techniques used. In essence, Hair et al (1995) and Frees (1995) suggest that consideration should be given to the size of the available dataset and the quality of the information collected rather than the available statistical tests or

software packages (e.g. SPSS or STATA). For example, SPSS, which was used to analyse the results in this thesis, offers, *inter alia*, factor analysis, discriminate analysis, cluster analysis, probit or logit analysis and regression analysis. Each of these multivariate techniques was considered. However, it was clear that some of these techniques were inappropriate. For example, factor and cluster analyses are only optimal if scalar variables (real numbers) are available for all variables. As this was not the case, consideration was given to regression, discriminate, probit or logistic regression analyses. The problem with the last three techniques is that they require some 'reduction' in the properties of the dependent variables. This is likely to lead to a loss of power and efficiency, particularly if the distribution of employment growth is highly skewed. Nevertheless, logistic regression was considered appropriate for the combined measure of absolute and relative employment growth (LOGITEMP). For REL_EMP and ABS_EMP, ordinary least squares regression analysis employing an entry procedure[77] was used as the dependent variable is scalar and the independent variables are scalar, ordinal or nominal.

[77] A more parsimonious model could have been derived using a 'stepwise' approach but this was considered inappropriate as 'stepwise' approaches are statistically rather than empirically or theoretically driven. Such procedures also often "ignore nonlinear alternatives as well as the effect of outliers and high leverage points" (Frees, 1995: 258) which are obviously important in situations where the data is highly skewed.

6.4. Data Sources

This section examines the data sources used in the research. Sources of data on small business sources and accountants are presented independently.

6.4.i. Small Businesses

In order to identify an appropriate sample of small businesses in the Northern region, consideration was first given to the possibility of using accountancy practices to generate a sample of small businesses. Such an approach is somewhat appealing. Largely, this is because it would allow us to trace the influence of accountancy provision on the performance of their clients. Issues of causation, therefore, would be perhaps easier to establish. There are, though, numerous problems with such a methodology (Chittenden, 1990). For a start, Roslender (1992) has shown that it is very difficult to gain access to the clients of accountancy practices partly because of their 'professional' nature, but also because they are likely to be concerned about client confidentiality. A second problem with such an approach is that bias may creep in. Accountancy practices that took part may only do so because they are more likely to be orientated towards fast growth or business service provision. Third, if they were allowed to select the clients, then further bias may be introduced as they, for example, may elect to select the clients from a particular group (e.g. high net worth businesses, businesses predisposed to using the accountant). Fourth, selecting a sample on this basis does not allow any method for evaluating if biases exist. Finally, if accountants we were to seek to establish the role that accountancy services play in supporting growth businesses, we would have to estimate their contribution prior to the growth of

a business and see how this had changed during the growth period. On balance, therefore, this option was rejected. This was principally because although 'causation' may appear easier to establish, there would still exist manifest doubts about the representativeness and reliability of such results.

Consideration was then given to deriving – independent of accountants – a sample of small businesses. This process began with a preliminary investigation into the available datasets on small businesses in the Northern region of England. Subsequent to this, it was discovered that there the chief sources of data were held by the TECs, the North East Chamber of Commerce, the Tyne and Wear Research and Intelligence Unit and Yellow Pages. The particular characteristics of each of these data sources are summarised in Appendix 1.

There were particular problems with some of these data sources. For example, data from Sunderland TEC or Cumbria TEC had not been 'cleaned'. Moreover, more fundamentally, any data derived from individual TECs would be local in origin. Hence, in order to gain coverage of the region, the use of multiple TEC datasets was considered. This option was rejected because of doubts about the quality of such data and due to the likely cost implications of such an approach.

The North East Chamber of Commerce's database was then considered as it does cover the Northern region. This sampling option was also rejected. This was for two reasons. First, the Chamber of Commerce's database consisted of 15,000 businesses which is far fewer than the Yellow Pages and almost comparable with the Tyne and Wear Research and Intelligence Unit's database. Second, it was considered that the

Chamber was most likely to represent established businesses and that it would not necessarily provide a 'representative' sample of small businesses with fewer than 50 employees (Birley, 1985).

This left, therefore, the Yellow Pages' database. This dataset contained 58,306 entries for the Northern region. Data is also claimed to be updated weekly and, although it does not have the owner-manager's details, the database does collect information on the geographic location (postcode), the self-reported sector (SIC(80), SIC(92) and the Yellow Pages own classification) and the size of the business. However, what was considered particularly useful about the database is that inclusion in it is based upon the business having a telephone line. As Hakim (1989) showed, it is more likely to include micro-sized businesses and recent start-ups. These are often missed in official statistics. Given these options, it was decided to use the Yellow Pages database.

The next consideration was the identification of an appropriate sampling frame. There are a variety of ways that this may done. For example, a random non-stratified sample may be taken. Such an approach may not be 'representative' of the wider business population of a given region. If, therefore, a random stratified sample is taken, this begs how such stratification is to be conducted. There are a two principal means by which such a sample may be derived. One option is to consider official sources of information on business size and sectoral composition.

Based upon this, an estimate may be derived of the small business population in the Northern region. This may be done by stratifying the Yellow Pages' data by, for example, sector and the number of businesses in each of the five counties of the

Northern region. This approach was rejected. This was because it was considered that official statistics, which are largely based upon IDBR data, might underestimate the number of non-VAT registered businesses. They may also be likely to miss recent start-ups[78].

The second method of randomly stratifying the small business population is to produce a random stratified sample of the Yellow Pages' database. The Yellow Pages, as we have seen, has certain advantages: it is likely to have better coverage of micro-businesses and it may be assumed that it is likely to have rather more 'new' businesses. Another advantage of the Yellow Pages is that it allows stratification on three dimensions: area, employment size and sector.

From this, a random stratified sample based upon the number of businesses in each of the region's five counties, in each sector and in the four employment size categories (1-5, 6-10, 11-19 and 20-50) may have been produced. This stratification procedure was not followed. This was for two reasons. First, the research did not seek to identify and chart the characteristics of businesses in particular sectors. As Storey (1993) suggests, growing businesses can operate in virtually any sector. Another reason for hesitancy in adopting a random stratified approach is that the Yellow Pages' database was dominated by micro-sized businesses. This would inevitably mean that there would only a limited number of larger-sized businesses available to the research.

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[78] The Yellow Pages' database does have some problems. Its treatment of employment is somewhat idiosyncratic: self-employed individuals are treated as if they had one employee. Second, it should not be assumed that entry onto the Yellow Pages database necessarily equates to the creation of a new venture. All that the acquisition of a new telephone number may mean is that an existing business has expanded (new lines), set up a branch business or elected to have a new number because they perceive marketing or advertising opportunities. As with the use of VAT data, it is difficult to control for such eventualities.

Yellow Pages were, therefore, asked to produce a modified random sampling frame of 1270 Yellow Pages' entries for 1996. Entries were first of all stratified to reflect the geographical distribution of businesses in the Northern Region. This produced 420 entries for Tyne and Wear, 300 for Cumbria, 220 for Durham, 206 for Cleveland and 124 for Northumbria (Table 6:4). Within these weighted samples, quotas for employment and sector were then subsequently selected to fit in as closely as possible with the totals for each of the counties.

Table 6:3: Sample Stratification of Yellow Pages Dataset

	Durham	Northum-bria	Cleveland	Tyne & Wear	Cumbria	Total
Total	10,262	5,656	9,387	19,299	13,702	58,306
%	17.6	9.7	16.1	33.1	23.5	100.0
No. of records	220	124	206	420	300	1,270
Employee Size Bands						
1 to 5	55	31	52	105	75	318
6 to 10	55	31	52	105	75	318
11 to 19	55	31	51	105	75	317
20 to 49	55	31	51	105	75	317
Total	220	124	206	420	300	1,270
Sectors						
Retail & Consumer	44	25	41	84	60	254
Agriculture & Materials	44	25	41	84	60	254
Manufacturing	44	25	41	84	60	254
Services	44	25	41	84	60	254
Transport & Construction	44	25	41	84	60	254
Total	220	125	206	420	300	1,270

6.4.ii. Accountants

For the accountants, data was supplied by the ICAEW from their directory of registered accountancy practices in the Northern Region of the UK (Tyne and Wear, Cumbria, Cleveland, County Durham, Northumbria, and North Yorkshire). The dataset consisted of 542 accountancy practices (which included information on the name of the senior partner, number of partners in the practice, and the address and telephone number of each practice). Initial analysis of the data revealed that 106 of these practices were in fact offices of larger practices. It was subsequently decided to remove these offices and send out questionnaires to the main office of the practice in the Northern region. This left a total sample of 436 accountancy practices.

6.5. Development of Survey Instruments

Both the accountants and the small businesses' questionnaires were developed simultaneously. At the start of this process, questionnaires were obtained from previous research that had investigated the relationship between accountants and small businesses (Lewis and Toon, 1985; Chittenden et al, 1990; and Kirby and King, 1997). These studies and a review of the literature identified suitable questions. This, subsequently, led to the development of draft questionnaires.

To assess the efficacy of the small business' pilot questionnaire, County Durham TEC were contacted and asked to provide 50 randomly selected small businesses from their database. The draft questionnaire was subsequently sent to these businesses on the 11th July 1996. Eight responses were received. To supplement these responses, the pilot questionnaire was sent to the four small businesses owner-managers who had

been interviewed previously ('informants') and owner-managers on the Durham University Business School's Growth programme. In total, eight further responses were received (two from the interviews and six from the Growth programme).

For the draft accountancy questionnaire, those accountants who had previously been interviewed were sent copies of the questionnaire and asked to comment on the questionnaire. All of these individuals returned the questionnaire. In both cases, appropriate modifications were made to the terminology, ordering and presentation of the questionnaires.

6.6. Operationalising the Hypotheses

In order to operationalise *H1* and *H2*, small business respondents were asked: 'Including yourself, how many staff (full-time equivalent 35/hrs/week) does your business on average employ?'. Previous employment levels were assessed by asking if employment had increased/decreased/remained the same and, thereafter, by 'If the number of staff has changed, by how many?'.

In terms of *H3*, *H4*, and *H5* a combination of univariate tests and the multivariate techniques described above were used. For *H3*, respondents were asked 'In general, where do you turn to if your business requires advice and assistance?'. From this, they were asked to indicate, using a rating scale (1 all the time, 5 never), whether they had used academic institutions, support agencies, an accountant, a member of your staff, network of contacts, family and friends, consultants, Chamber of Commerce, Trade Association, Solicitor, Bank and Nobody.

In terms of *H4*, respondents were asked three separate questions: 'How would you describe your external accountant's practice?' (local, regional, national and international[79]); 'How long has your business been a client of your accountant?' (3 years or less, 4 to 7 years, over 7 years); and 'What sort of role does your external accountant play in your business?' (active member of management team, business advice, financial management support, emergency advice, and statutory service).

For *H5*, respondents were asked 'What work has your external accountant undertaken for the business?'. Respondents were then given a list of the thirteen possible accountancy services: statutory accounts, tax compliance, statutory audits, company secretarial work (statutory services), preparation of accounts, tax consultancy, non-statutory audits, payroll and PAYE, management accounting, management advisory services, general financial advice, insolvency and non-accountancy services (non-statutory services). All of these services were investigated at the univariate level using REL_EMP, ABS_EMP and LOGITEMP. At the multivariate level, the analysis focused upon those non-statutory services that have been identified as being the non-statutory business services most likely to have been used by the fast growth businesses (tax consultancy, payroll and PAYE, management accounting, management advisory services, general financial advice and non-accountancy services).

In terms of *H6* and *H7* it is not possible to use the multivariate approach identified above as questions relating to these hypotheses sought to investigate likely or future

[79] In the subsequent results, respondents who responded that they used a nationally or internationally based accountant were combined to improve the utility of this question.

use of non-statutory support. They, therefore, do not assess the contribution of such perceptions to previous performance. Subsequently, a univariate framework is used to test *H6* and *H7*. Thus, for *H6*, respondents were asked 'What factors would you take into consideration when selecting external accountants to undertake work for your business *other than* statutory services?'. Statutory services were subsequently defined and respondents were asked to indicate, using a rating scale (1 very likely, 4 not likely), how important were: previously used accountant for non-statutory work; previously used accountant for statutory work; the opinion of third parties; reputation/quality; and cost.

In terms of *H7*, respondents were asked 'What benefits might there be in using your external accountants to provide services for your business *other than* statutory services?'. Respondents were then given a choice of factors: external view on the business; general business advice; specific business advice; personal financial advice, budgetary and financial business information. The disadvantages of such services were teased out using a similar question ('What drawbacks...') with respondents asked to rank: lack of business awareness by accountant; likelihood of a breach of confidentiality; the remoteness of the accountant from the business; loss of control over business; cost of work; and technical language. For both of these questions, respondents were asked to use the same rating scale as *H6*.

In terms of three of the hypotheses derived from the accountancy (*H8*, *H9* and *H10*), three dependent variables are offered to control for practice characteristics: geographic scope (local, regional and inter/national); the age of the practice (3 years

or younger, 4 to 7 years and older than 7 years) [80]; and the size of the practice (sole partner, 2 to 4 partners, 5 or more partners). Subsequently, only a univariate, rather than a multivariate analysis, is offered. The particular test used for these three hypotheses is the Kruskal-Wallis test. This tests is appropriate where the sample is small, where there may be concerns about the parametric nature of the variables, and in situations were dependent variables take more than two forms (Siegel, 1956).

H8 was operationalised by asking accountants 'Which services does your practice provide?' (13 accountancy services offered) and through 'Please rank these services (13 accountancy services offered) in terms of the fee-income they in total generate?' with 1 being the highest rank. *H9* used a similar question to that of *H6*: 'What factors do you consider are influential in a small business client's selection of a firm of accountants to perform non-statutory work?'. Using a five point scale (1 very, 5 not at all), accountants were given a similar range of responses although geographical proximity was also included. For *H10*, three questions were used: 'How many times a year does a partner (or senior manager) initiate contact with each small business client to discuss matters other than statutory work?'; 'What actions usually lead to your practice carrying out non-statutory work for existing small business clients?' and 'What actions usually lead to your practice carrying out non-statutory work for new small business clients?'. All three questions used the same rating scale (1 all, 4 none).

In terms of the final hypothesis (*H11*), it was possible to conduct a logistic regression

[80] Although the size and age variables are essentially arbitrary, there is some precedent for their use; age being used previously with the small businesses and the number of partners was used by Chittenden et al (1990).

analysis. This technique was selected as the base question asked 'Do you actively target any particular type of business?' (yes/no response). If yes, they were subsequently asked 'If so, please describe the type of client targeted' and given three effective choices 'start-ups', 'growing businesses' and 'mature family run businesses'. Those that indicated that they did target growth businesses were coded as 1. The logistic regression analyses examined - having controlled for age, size and geographic scope - service use, selection criteria, and contact with client. It was not possible to analyse the influence of fee-income because there were too many missing cases.

6.7. Data Collection

6.7.i. Small Businesses

The finalised questionnaire (see Appendix 2) to small businesses was mailed on 18th September 1996 to 1270 small business owner-managers. The aims of the study were explained, confidentiality assured and a pre-paid envelope was included. One month later, this process was repeated for those owner-managers who had not responded to the initial postal mail-out.

From the first mail-out, 184 usable responses were received. The second postal mail-out produced 152 usable returns. This presented the research with 336 (26.5%) usable responses. These 336 responses were used in the ICAEW report (Kirby et al, 1998). However, for the purposes of this research, it is not intended to use all of these responses. The reason for this is that some of these businesses, despite having been

identified by the Yellow Pages database as having fewer than 50 employees, employed rather more than this in 1996. This research has decided to exclude these businesses principally because they do not meet the definition used in this research. Following on from this decision, the number of usable responses used in this thesis is 313.

6.7.ii. Accountants

The finalised questionnaire (see Appendix 3) for the 436 accountants was mailed, with a covering letter explaining the aims of the study and assuring the confidentiality of the respondent, on 23 August 1996. A pre-paid envelope was also enclosed. One month later, those practices that had not responded to the initial postal mail-out were sent another copy of the questionnaire (with a covering letter and a pre-paid envelope) and a subsequent telephone call was made to ensure an adequate response rate.

261 responses were received. Of these, 183 responses were usable which represents a response rate of 42%. Those that did return a questionnaire but felt unable to respond (78 responses) gave various reasons for non-response. The most common of these was that they were no longer in practice but continued to hold a practising certificate (33.1%). Other reasons were also given: respondents were retired (26.9%), too busy (23.1%), felt that it was not relevant to them (14.3%) and impinged upon their confidentiality (2.6%). The majority of usable responses were received in the first mail-out (63.4%).

The 183 usable responses were used in Kirby et al (1998). These responses, however, include 24 responses that were received from accountancy practices that had a North Yorkshire address. As North Yorkshire is outside of the Northern region and has considerably different VAT deregistration and registration rates (see Chapter 2, Tables 2:8 and 2:10), it was decided to exclude these responses. This reduced the number of usable responses to 159.

6.8. Tests of Representativeness and Response Bias

6.8.i. Small Businesses

In order to test for the representativeness of the sample of small businesses, Chi-square tests were conducted for two of the three available dimensions provided by the Yellow Pages database (employment level and area)[81]. In terms of area, a Chi-square test revealed that there were no statistically significant differences between responses from each of the five counties of the Northern region (X^2: 2.798; 4 degrees of freedom (d.f.); and a p. value of 0.592). However, in terms of employment size, a further Chi-square test showed that there were appreciable differences (X^2: 26.895; 3 d.f.; and p. value of 0.000) between the responses and the sample of small businesses. The reason for this was that there were rather more responses from businesses in the 6-10 employment category (31.3%) when compared to the sample of 1,270 (25.5%).

[81] It was not possible to produce Chi-square tests for sector as Yellow Pages provided this information in terms of SIC (92) code. Despite attempts to codify each of the responses into sectors, it became apparent that this procedure would result in inaccuracies and was therefore subsequently abandoned.

In terms of response bias, a further Chi-square test of early and late responders revealed that there were no statistically significant differences between these two groups (X^2: 2.294; 3 d.f.; and p. value of 0.514). Moreover, to ensure that response bias was limited a random sample of 200 non-responding small businesses was undertaken in November 1996. From the returns (45%) the principal reasons for non-response were: respondents did not have the time to fill in the questionnaire (41.6%); their business was part of a larger business (24.7%); and they felt the information requested from them impinged on their confidentiality (11.2%). This, in addition to the fact that 259 (86.6%) of respondents indicated that they were owner-managers of the business[82], would suggest that the risk of response bias was limited.

6.8.ii. Accountants

Chi-squares of association were conducted upon the geographic location and number of partners to test for the representativeness of the 159 usable responses. In terms of the geographic location, the Chi-square test revealed no statistically significant differences between the ICAEW database and the usable responses (X^2: 1.998; 4 d.f; and a p. value of 0. 736). To test for statistical differences between the total ICAEW database and the sample, a paired samples 't' test was conducted. This revealed no statistically significant differences (t-statistic: 0.592; 132 d.f.; and a p. value of 0.555). However, a further 't' test seeking to identify if there were any differences between early and later responses revealed that larger sized businesses (mean: 21.48; Standard Deviation (Std. Dev.): 90.62) were much more likely to respond to the second mail-

[82] 7% of respondents indicated that they were administrators in the business and 6.4% indicated that they were the Financial Director of the business

out than smaller sized accountancy practices (mean: 4.62; Std. Dev.: 22.05) (t-statistic: -1.752; 150 d.f.; p. value of 0.086).

Overall, it may be judged that there is only a modest risk of a lack of representativeness and response bias. This suggestion is supported by the fact that, of the 108 respondents who provided details of their position, 70.4% were the senior partner in the practice. A further 25% of respondent were partners in their practice with the remainder of respondents being managers (4.6%)

6.9. Conclusions

This chapter has shown that there are very many methodological difficulties faced with an assessment of fast growth businesses. We have seen that there are definitional issues, temporal problems, measurement hazards and that appropriate data is often difficult to collect. This chapter, where possible, has attempted to adopt robust measures to control for these issues. Hence, careful consideration has been given to the measurement of employment growth through the provision of three alternative growth metrics.

The chapter has also sought to construct an appropriate sample of small businesses and accountants. Consideration was given to investigating if a sample of small businesses could be derived from accountants. This was deemed an inadvisable approach, largely because the disadvantages (doubts about the reliability and

robustness of any sampling frame) were thought to outweigh the potential advantages (perhaps easier to establish and estimate the impact of accountancy services).

Rejecting this approach, in favour of two separate and independent samples of small businesses (Yellow Pages) and accountants (ICAEW), does mean that it makes it extremely difficult, if not impossible, to show that support provision *caused* the growth of a business (Storey, 1994:153). Nonetheless, the research does set out to investigate support use patterns for growth businesses and develop proxies for establishing if there is an incidence of market failure. This may tell us much about the support configuration of the Northern region of England and, thereby, guide ways in which small employment growth businesses may be more readily supported. To operationalise this, survey instruments were constructed, piloted and refined for the two separate questionnaires. These were then mailed out and, following a second mail-out, 336 usable returns were received from small businesses and 183 from accountants. These returns were analysed in Kirby et al (1998). However, as this thesis is concerned with the Northern region, we have seen that it was considered apposite to reduce the number of available returns either because businesses employed more than 50 employees or because accountants were thought to operate in North Yorkshire. The consequence of this is that the subsequent analyses in the following chapter rely upon a sample of 313 businesses and a separate sample of 159 accountants.

The chapter has also shown that there is only a limited risk of response bias or a lack of representativeness. This risk should, of course, not be ignored but, given the reasonable return rate, the non-significance of many of the representativeness tests

and the limited potential for response bias, it may be judged that there are some grounds for believing that the samples are robust.

Chapter 7: Use Of Support By Small Employment Growth Businesses

7.1. Introduction

This chapter investigates *H1*, *H2* and *H3*. *H1* is examined by analysing employment change through the use of a transition matrix and a simplified components of change (expansions minus contractions) analysis. Chapter 4 indicated, however, that this is a rather limited way of examining the employment creation potential of smaller businesses. Indeed, Storey (1985) has argued forcefully that attention should concentrate upon the relatively few businesses that create the bulk of employment. *H2*, therefore, investigates fast growth businesses by evaluating the contribution of particular businesses to gross employment growth over the study period.

To assess *H3*, univariate tests (Chi-square and 't' tests) are carried out on each of the three growth metrics. This provides likely indications of the sources of variability. Univariate tests, though, are limited because they do not consider inter-related features. They are also require more than 5 cases in each cell (Siegel, 1956). Therefore, to better assess *H3*, six multivariate regression models are presented. As has already been suggested, such techniques will allow us to see the use of support providers, independent of firm characteristics.

However, before we turn to the actual assessment of the three hypotheses, this chapter first considers the expected signs and the descriptive statistics of the small businesses in our sample. An assessment of each of the hypotheses then follows. The chapter closes with a discussion of the implications of the chapter's findings.

7.2. Data Description

7.2.i. Expected Signs: Firm Characteristics

Beginning first with the expected signs of the variables, Table 7:1 suggests that the age of the business (AGECO) is expected to show a negative relationship with employment growth. This is following Storey et al (1987) whose study showed that young businesses were most likely to grow relative to older businesses. Such a relationship is also supported by Evans (1987), Variyam and Kraybill (1992) although Smallbone and North (1995) have suggested that this is not always the case.

The bulk of the available evidence would also suggest that that the size of the business, whether measured in terms of employment (EMPLOY) or in turnover (TURN1, TURN2, TURN3 and TURN4) would also likely indicate that smaller sized businesses were more likely to experience employment growth. This much is again suggested by Storey et al (1987), Evans (1987), Variyam and Kraybill (1992), Reid (1995), Barkham et al (1996). Yet again we cannot be unequivocal about this hypothesised direction. Hakim (1989) - albeit in using aspirations to growth as a

proxy for employment growth - has shown that it is larger sized businesses that are more likely to create employment.

Concomitant with an increase in employment (TURNHIGH, TURNGROW, TURNSAME, TURNFALL and TURNLOW), it may also be anticipated that turnover over the two-year period would increase. Evidence to support such a relationship is provided by Barkham et al (1996) although Greene et al (1997) have shown that turnover and employment change are not always strongly correlated. It is harder, however, to be precise about which level of turnover (TURN1, TURN2, TURN3 or TURN4) is likely to be associated with any of the three growth metrics.

In terms of the legal form of the business, it is expected that those businesses that are limited companies (LTD_CO) may be anticipated to grow faster than those businesses that are either partnerships (PARTNERS) or sole proprietorships (SOLO). This follows evidence presented by Reynolds and Miller (1988), Johnson (1989) and Hakim (1989). Geographic distinctions are also likely. This may be due to distinct differences in the deregistration rates for rural areas and urban areas (Chapter 2 - Table 2:9). Moreover, it is also clear from Keeble and Tyler (1995), North and Smallbone (1996) and Keeble (1998) that small businesses in rural areas are likely to outperform their urban counterparts in terms of employment generation. It may, therefore, be expected that businesses in the rural areas of this study - Cumbria (CUMBRIA) and Northumbria (NORTHUM) – are more likely to generate employment than the urban areas of this study (County Durham (DURHAM), Tyne and Wear (TYNEWEAR) and the former county of Cleveland (CLEVE).

Sectoral differences may also be anticipated, with service sector businesses more likely to grow (Chapter 2 - Tables 2:4 and 2:5; Bryson et al, 1997; and Keeble et al, 1992). If so, businesses in service sectors (PROVSERV and CONSERV) will be expected to generate more jobs than those in agriculture (AGRIC), construction (CONSTRUC), wholesaling (WHOLESAL) and manufacturing (MANU).

7.2.ii. Expected Signs: Sources of Support

As shown in Chapter 4, there is little empirical research on the use of support by small employment growth businesses. Indeed, it may be, following the axioms of neo-classical theory, that, even if support is received, the owner-manager of a small business does not acknowledge it (NOBODY). Survey evidence from the Bennett and Robson (1998, 2000a), though, suggests that only about only 5% of small and medium-sized enterprises made no use of external advice. Bennett and Robson (1998, 2000a) also indicate that fast growth businesses are more likely than other businesses to rely upon some type of support. Given this, it is suggested that (NOBODY) will be negatively signed.

It may follow from this that any type of support will be positively related to growth (Gibb, 1993). If so, it may be that social networks such as friends and family (FAMFREND) and business contacts (NETWORK) play a pivotal role in the growth process. The available evidence for this is limited: only Brüdel and Preisendörfer (1998) were able to point to such networks being important in the survival and growth of the business. A perhaps more central social network is that of the individuals who actually work within the organisation (STAFF). Storey (1994) has suggested that the

presence of effective support from within the business is often a key determinant of the fast growth business. Similarly, Bennett and Robson (2000b) have indicated that the use of a business contact (NETWORK) and a relative (FAMFREND) is associated with growing businesses.

It may, however, be anticipated that brokers will prove to be a more central source of support. Donckels and Lambrecht (1997) and Marshall et al (1993), for example, have shown that consultants can play an important role in supporting growth amongst smaller sized enterprises (CONSULT). Dunkelberg et al (1987) and Bennett and Robson (2000b) have also shown that support provided by the banks (BANK) can also make a positive contribution to the growth process. Likewise, Storey et al (1989) and Bennett and Robson (1998, 2000b) have shown that accountancy support (ACCOUNT) was most commonly used by small employment growth businesses. Bennett and Robson (2000b) have also indicated that the use of solicitors (SOLICIT) is associated with growth business.

There is also some, limited, support for the idea that network substitutes are used by growing businesses. For example, according to Bennett and Robson (2000a), the incidence of the use of government support provision (e.g. Business Links) increased in the late 1990s. There is also considerable evidence from both the UK and the US that government support agencies (SUPAGENT) play an important role in nurturing businesses particularly at the venture creation stage (Chrisman, 1999; Chrisman and Katrishen, 1994; Dalgleish, 1993)[83]. Set against this, Bennett and Robson (2000b) did not find that the use of such support was associated with growth businesses.

[83] See Wood (1994) for an opposing viewpoint.

It may also be that academic institutions (ACADEMY) are little used by fast growth businesses although Storey et al (1989) found evidence to suggest otherwise. Similarly, Curran and Blackburn, 1994 found that Trade Associations (TRADE) were the sources of support and Bennett and McCoshan (1993) found, along with Bennett and Robson (1998, 2000a), that Chambers of Commerce (CHAMBERS) were often used by small businesses.

Overall, therefore, it may be anticipated that fast growth businesses are more likely to make use of brokers (ACCOUNT, BANK, SOLICIT and CONSULT) than NOBODY, social networks (FAMFREND, STAFF and NETWORK) or network substitutes (ACADEMY, SUPAGENT, CHAMBER and TRADE).

7.3. Variable Description

7.3.i. Independent Variables

In terms of the independent variables, Table 7:1 shows that the mean average for REL_EMP was positive (10.51). However, further inspection of REL_EMP revealed a non-normal distribution given a range of –75% to 900% and a kurtosis of 109.9[84]. ABS_EMP, too, was also found to be not normally distributed despite having a

[84] The usual test for normality is the Kolmogorov-Smirnov test (Hair et al, 1995). This revealed a high degree of statistical significance (p. value 0.000) and, as such, REL_EMP cannot be considered to be normally distributed.

median of zero and a mean close to zero (0.56)[85]. The usual response to this is to look to normalise these dependent variables through a log transformation but, given the presence of zero and negative values, this is not possible.

Failing this, the next option to consider is the identification and possible removal of outliers. This can readily be done by first plotting the studentized residuals. Consideration also may be given, as Hair et al (1995) suggest, to Leverage points, Mahalnobis distance and Cook's distance not only confirm the presence of outliers but also to indicate influential observations. In this way, it would be possible to control for the problems of collinearity, homoscedasticity or hetroscedasticity. In this instance, it would be inappropriate to follow such standard procedures. The reason for this is clear: if employment growth is a due to a minority of businesses then it is likely that it will be highly skewed. To limit and potentially homogenise these dependent variables, therefore, would reduce the efficacy of subsequent attempts to understand the factors that may help explain the highly skewed nature of the distribution. As such, for REL_EMP and ABS_EMP no attempt was made to transform these variables.

The other independent variable is LOGITEMP. LOGITEMP businesses are classified as 1=high growth if they have increased their employment level by more than 5 employees and if employment has increased by more than 25%. Table 7:1 shows that only 5% of businesses met these criteria.

[85] The Kolmogorov-Smirnov test indicated a p. value of 0.000. Further graphical examination of the data using a probability plot (not shown) revealed a high degree of peakedness.

7.3.ii. Dependent Variables

In terms of the dependent variables, Table 7:1 shows that the mean age of the businesses (AGECO) was 28.39 years. It also shows that the median age of the businesses was 17 years and that the range was between 0 to 247 years. Unsurprisingly, AGECO was not normally distributed (kurtosis: 9.974; Kolmogorov-Smirnov test's p. value: 0.000). Similarly, although the mean employment size of the businesses (EMPLOY) was 12.9 close to the median (9 employees), it was again found that this variable was not normally distributed (Kolmogorov-Smirnov: p. value 0.000). To help reduce this non-normality, a log transformation was considered. This, though, did not lead to a normal distribution (Kolmogorov-Smirnov: p. value 0.000). Despite this, it is still appropriate to consider the log transformation of EMPLOY given that it would help stabilise the hetroscedasticity of the variable. It was decided, however, not to adopt this approach. This was for two reasons. First, although the log transformation produced a 72% reduction in the Kolmogorov-Smirnov statistic, EMPLOY remained stubbornly non-normal. More importantly, though, given the non-normal nature of REL_EMP and ABS_EMP, there would be little advantage in pursuing a log transformation as it will not serve to reduce the hetroscedasticity of these two dependent variables.

Table 7:1 also describes a number of other variables. With regard to geographical location, for instance, the table shows that 30% of the businesses were located in TYNEWEAR, 25% in CUMBRIA, 18% in DURHAM, 16% in CLEVE and 11% in NORTHUM. MANU businesses made up 26% of the sample, with the rest being made up of CONSERV (26%), PROFSERV, WHOLESAL, CONSTRUC (all 17%)

and AGRIC (9%). In terms of the legal form of the business, the most common form was that of a LTD_CO (49%), followed by PARTNER (32%) and SOLE (19%)[86]. The most frequently cited turnover levels were between £100,000 and £500,000 (TURN2) (36%) and £500,000 and £2,400,000 (TURN3) (35%) with turnover levels of less than £100,000 (TURN1) and greater than £2,400,000 (TURN4) representing 19% and 10% respectively. Furthermore, only 8% of businesses had seen their turnover grow by more than 25% over the last two financial years (TURNHIGH). It was, however, just as uncommon for businesses to experience a decline of this magnitude with only 3% of businesses experiencing a decline of greater than 25% (TURNLOW). Instead, businesses were more likely to have experienced a mild growth (45%) (TURNGRTH) or decline (19%) in turnover (TURNFALL), or to have seen it remain the same (TURNSAME) (25%).

Outside of these firm characteristics, the overall impression is one of very limited use of internally or externally generated support. Indeed, in terms of median averages, the most common level of support was 'sometimes'. The mean averages show that ACCOUNT (mean of 3.27) was the most common source of support. The accountants were then followed by the BANK (3.83) and a solicitor (SOLICIT) (3.88). The next most frequent sources of support were STAFF and the NETWORK of the owner-manager (both 3.89). Outside of these sources of support, individuals turned to FAMFREND (4.21), TRADE (4.26), CONSULT (4.44), and SUPAGENT (4.48). If really pushed, they also turned to the CHAMBER (4.73) or ACADEMY (4.79). Only a few respondents, though, relied upon NOBODY (4.87).

[86] Six businesses indicated that they were co-operatives. Given the small number of such businesses these were treated as missing cases.

These results would tend to indicate that brokers are the most important source of support. And, as with other studies, it is clear that accountants are most frequently used source of support. The question, however, is whether or not accountants or the other brokers are used by small employment growth businesses. This is a subject that we turn to later in the chapter. For the moment, though, let us begin by examining *H1*.

Table 7:1: Description of the Variables, their Expected Sign and Summary Statistics

Variable	Description	Expected Sign	Mean	Std. Dev.	Median	Min.	Max.	N.
Dependent Variables								
REL_EMP	Percentage employment change between 1994-1996		10.51	66.47	0	-75	900	313
ABS_EMP	Absolute employment change between 1994-1996		0.56	3.75	0	-20	20	313
LOGITEMP	1 = 'Fast' growth business, 0 = otherwise		0.05	0.21	0	0	1	313
Independent Variables								
AGECO	Age of Business (in years)	-	28.39	31.44	17	0	247	308
EMPLOY	Number of Employees	-	12.90	11.73	9	1	50	313
County								
TYNEWEAR	1 = located in Tyne and Wear, 0 = otherwise	-	0.30	0.46	0	0	1	313
DURHAM	1 = located in County Durham, 0 = otherwise	-	0.18	0.39	0	0	1	313
CLEVE	1 = located in Cleveland, 0 = otherwise	-	0.16	0.36	0	0	1	313
NORTHUM	1 = located in Northumbria, 0 = otherwise	+	0.11	0.31	0	0	1	313
CUMBRIA	1 = located in Cumbria, 0 = otherwise (Control Variable)	+	0.25	0.43	0	0	1	313
Legal Status								
LTD_CO	1 = limited Company, 0 = otherwise	+	0.49	0.50	0	0	1	306
PARTNER	1 = Partnership, 0 = otherwise	-	0.32	0.46	0	0	1	306
SOLE	1 = Sole Trader, 0 = otherwise (Control Variable)	-	0.19	0.39	0	0	1	306

Turnover								
TURN1	1 = turnover of less than £100,000, 0 = otherwise(Control Variable)	?	0.19	0.39	0	0	1	313
TURN2	1 = Turnover of between £100,000 and £500,000, 0 = otherwise	?	0.36	0.48	0	0	1	313
TURN3	1 = Turnover of between £500,000 and £2,400,000, 0 = otherwise	?	0.35	0.48	0	0	1	313
TURN4	1 = Turnover of more than £2,400,000, 0 = otherwise	?	0.10	0.30	0	0	1	313
Change in Turnover								
TURNHIGH	1 = Turnover increased by more than 25% in the last two financial years, 0 = otherwise	+	0.08	0.27	0	0	1	313
TURNGRTH	1 = Turnover increased by between 1% and 25% in the last two financial years, 0 = otherwise	+	0.45	0.50	0	0	1	313
TURNSAME	1 = Turnover stayed the same in the last two financial years, 0 = otherwise	-	0.25	0.43	0	0	1	313
TURNFALL	1 = Turnover decreased by between 1% and 25% in the last two financial years, 0 = otherwise	-	0.19	0.40	0	0	1	313
TURNLOW	1 = Turnover decreased by more than 25% in the last two financial years, 0 = otherwise (Control Variable)	-	0.03	0.18	0	0	1	313
Sector								
WHOLESAL	1 = Operated in the Wholesale sector, 0 = otherwise	-	0.17	0.38	0	0	1	308
CONSTRUC	1 = Operated in the Construction sector, 0 = otherwise	-	0.17	0.38	0	0	1	308
MANU	1 = Operated in the Manufacturing sector, 0 = otherwise	-	0.27	0.44	0	0	1	308
PROFSERV	1 = Operated in the Professional Services sector, 0 = otherwise (Control Variable)	+	0.17	0.38	0	0	1	308
CONSERV	1 = Operated in the Consumer Services sector, 0 = otherwise	+	0.26	0.44	0	0	1	308
AGRIC	1 = Operated in the Agriculture sector, 0 = otherwise	-	0.09	0.29	0	0	1	308

Sources of Support	*Key: 1 = All the time, 2 = Very Often, 3 = Often, 4 = Sometimes, 5 = Never*							
NOBODY	Used No-one else for advice and support	-	4.87	0.55	5	1	5	313
FAMFREND	Use of Family and Friends for advice and support	(+)	4.21	1.14	5	1	5	313
STAFF	Use of Members of Staff for advice and support	(+)	3.89	1.37	5	1	5	313
NETWORK	Use of Business Network for advice and support	(+)	3.89	1.24	4	1	5	313
ACCOUNT	Use of Accountant for advice and support	+	3.27	1.19	4	1	5	313
BANK	Use of Bank for advice and support	+	3.83	1.08	4	1	5	313
SOLICIT	Use of Solicitor for advice and support	+	3.88	1.08	4	1	5	313
CONSULT	Use of Consultants for advice and support	+	4.44	0.77	5	1	5	313
ACADEMY	Use of Academic Institutions for advice and support	(+)	4.79	0.54	5	1	5	313
SUPAGENT	Use of Support Agencies for advice and support	(+)	4.48	0.80	5	1	5	313
CHAMBER	Use of Chamber of Commerce for advice and support	(+)	4.73	0.62	5	1	5	313
TRADE	Use of Trade Associations for advice and support	(+)	4.26	1.03	5	1	5	313

7.4. Testing the Hypotheses

7.4.i. *H1: There is no difference in the net fertility rates between sizes of business.*

To investigate *H1*, previous (1994) and current (1996) employment levels were calculated. This is shown in Table 7:2 and 7:3. Table 7:2 shows that in 1994 total employment was 3,863 jobs. Of this, those businesses in the 20-50 employee range contributed the bulk of these jobs (55.2%), with only a limited amount being contributed by those businesses in the 11-19 employment category (22.3%) and a spartan amount by the 6-10 and 0-5 employment size categories (13% and 9.5% respectively).

By 1996, total employment increased by 174 jobs to 4,037 (Table 7:3). In tracing the number of businesses in each size class, we can see that the 0-5 category has declined marginally by 1.3% as has the 11-19 category (1%) and that the 6-10 size category has remained the same (20.1%) whilst the number of businesses in the 20-50 size category has increased by 2.2%. Moreover, it is also clear that the employment in the 20-50 category has increased to 58.3% of all employment whilst the other size categories have declined marginally.

Table 7:2: Previous Employment of Businesses, 1994

Previous Employment Size Class	No. of firms	% of firms	Total employ-ment	Mean Employ-ment	% of total employment in each size group
0-5	119	38.0	366	3.1	9.5
6-10	63	20.1	502	8.0	13.0
11-19	60	19.2	861	14.4	22.3
20-50	71	22.7	2,134	30.1	55.2
Total	313	100	3,863	12.3	100.0

Table 7:3: Current Employment of Businesses, 1996

Present Employment Size Class	No. of firms	% of firms	Total employ-ment	Mean Employ-ment	% of total employment in each size group
0-5	115	36.7	336	2.9	8.3
6-10	63	20.1	511	8.1	12.7
11-19	57	18.2	837	14.7	20.7
20-50	78	24.9	2,353	30.2	58.3
Total	313	100	4,037	12.9	100.0

Table 7:4 traces these changes in more detail by using a transition matrix. Overall, as Table 7:2 and 7:3 showed, it is apparent, from the column and row totals, that the contribution of the 20-50 size class has increased a little whilst the other size classes are either populated by the same number of businesses (6-10) or have decreased marginally.

Beyond this, what is perhaps striking about Table 7:4 is that the majority of businesses remain in their own size class (shaded area). Only a few business, it would seem appear to grow. For example, only six businesses that began with 0-5 employees reached the next size class and only one reached the 11-19 size category. Similarly, only seven businesses that were originally in the 6-10 size category grew above this level although one of them did grow to the 20-50 level. At the same time, however, eight businesses shrank into the 0-5 category. For the 11-19 category, ten businesses declined either into the 0-5 category or, more commonly, into the 6-10 category. The businesses in the 20-50 also declined with two businesses losing a considerable number

of staff and eight others slipping back into the 11-19 category.

Table 7:4: Employment Transitions by Size Class, 1994-1996

Previous Employment		Current Employment 0-5	6-10	11-19	20-50	Total
0-5	No.	108	6	1		115
	%	0.34	0.02	0.00		0.37
6-10	No.	8	48	5	2	63
	%	0.03	0.15	0.02	0.01	0.20
11-19	No.	1	9	46	1	57
	%	0.00	0.03	0.15	0.00	0.18
20-50	No.	2		8	68	78
	%	0.01		0.03	0.22	0.25
Total	No.	119	63	60	71	313
	%	0.38	0.20	0.19	0.23	1.00

So far, therefore, it would appear that businesses originally and subsequently in the largest size class (20-50 employees) provided the bulk of available jobs. Other size classes, as we have seen, were less important. Nevertheless, it is clear that there has been some marginal movement both in terms of job creation and destruction – although not at a rate commensurate with what Cosh and Hughes (1998) found for the UK[87]. The question, however, remains which size class contributes to the increase in total employment witnessed over the period of the study? To determine this, expansions and contractions over 1994-1996 were measured (Table 7:5). From Table 7:5 it is clear that 337.5 new jobs were created. These new jobs were broadly shared between the 20-50 (35.23%), 11-19 (26.23%) and the 0-5 (24.24%) size categories with only the 6-10 size category providing fewer new jobs (14.3%). In terms of

[87] In their assessment of UK employment transitions between 1994-1997, greater movement between particular size classes was found. Of the 0-9 employee size businesses (771), the majority of them (96.7%) remained in the same size class over the three year period. For the 279 businesses in the 10-19 size class, movement was more likely with 34.7% of them dropping down to the 0-9 size class and 4% of them moving into the 20-49 size class. Businesses in the 20-49 size class (304) also were more likely to see employment levels decline - 6.3% to the 0-9 size class; 24.3% to the 10-19 size class – rather than grow (5% grew into the 50-99 size class).

contractions, businesses that created the largest number of jobs (20-50 size category) were also the ones most likely to lose jobs. Indeed, of the 203 jobs lost, 56.16% of them were to be found in this size category. At the same time, the smallest size category was the least likely to experience job losses. It is, therefore, perhaps unsurprising to note that the largest size class net change (expansions – contractions) was approximately three times lower than that of the smallest size class (10.89% and 38.68%). It is also clear that the 11-19 size class had created an almost identical number of net jobs (38.4%).

When employment share is considered (Chapter 3), it is clear that the derived job creation, loss and net fertility[88] indexes do not indicate a monotonic pattern: the 11-19 size category, across all three indexes, 'perform' better than either the classes above or below the 11-19 size category. It is equally clear, however, that the smallest size class were the most likely to create jobs (2.56), lose jobs (1.25) and, overall, to be the most fertile (4.09). Given this, *H1* is rejected.

Table 7:5: Employment Fertility, 1994-1996

Employ-ment size	Expansions		Contractions		Net change		Employ-ment share	Job creation index	Job loss index	Net Fertility
	No.	%	No.	%	No.	%	%			
0-5	91.5	24.24	24	11.82	67.5	38.68	9.46	2.56	1.25	4.09
6-10	54	14.30	33	16.26	21	12.03	13.00	1.10	1.25	0.93
11-19	99	26.23	32	15.76	67	38.40	22.29	1.18	0.71	1.72
20-50	133	35.23	114	56.16	19	10.89	55.25	0.64	1.02	0.20
Total	377.5	100	203	100	174.5	100	100			

The rejection of *H1* indicates results that are broadly similar to what was found in Chapter 4. It may, therefore, lead us to suggest that we should look at the smallest

[88] Net fertility is calculated by dividing net change in employment by employment share. A similar procedure is also adopted for the job creation and loss indexes

size class as the principal source of new employment within the Northern region. The problem with this, as we have seen, is that there is considerable evidence to suggest that employment creation is located not in a particular size class but amongst a small percentage of small employment growth businesses. It is to this that we now turn.

7.4.ii. *H2: Over a given period, employment generation is normally distributed amongst businesses.*

To assess *H2*, consider Table 7:6. This shows the 94 businesses that saw an increase in employment over the period 1994-1996. The table also shows that the employment contribution of these 94 businesses was not uniform. Of the 377.5 jobs created, nine businesses were responsible for 120 new jobs. Cumulatively, as Table 7:6 shows, 9.57% of businesses created 31.79% of the new jobs. If this broadened out, we can also see that 18 businesses or 19.15% of businesses were responsible for nearly 50% of the jobs created.

Table 7:6, however, only relates employment growth in terms of the 94 businesses that added to their employment level. If we consider the total sample of 313 businesses, the top 13 businesses (153 jobs) only represent 4.12% of the 313 businesses. Similarly, if this is extended out to include the top 18 businesses (183 jobs) we find that they only represent 5.75%. It is suggested, therefore, that these figures are comparable with other findings (e.g. Cosh and Hughes, 1998) and indicates that employment generation is concentrated in a relatively small percentage of businesses. On this basis, *H2* is rejected.

Table 7:6: Gross Employment Contribution, 1994-1996

No. of Jobs	No. of firms	%	Cumulative %	Employment contribution	% of employment	Cumulative %
0.5	1	1.06	100.00	0.5	0.13	100.00
1	14	14.89	98.94	14	3.71	99.87
2	30	31.91	84.04	60	15.89	96.16
3	12	12.77	52.13	36	9.54	80.26
4	11	11.70	39.36	44	11.66	70.73
5	8	8.51	27.66	40	10.60	59.07
6	5	5.32	19.15	30	7.95	48.48
7	1	1.06	13.83	7	1.85	40.53
8	1	1.06	12.77	8	2.12	38.68
9	2	2.13	11.70	18	4.77	36.56
10	5	5.32	9.57	50	13.25	31.79
15	2	2.13	4.26	30	7.95	18.54
20	2	2.13	4.26	40	10.60	10.60
Total	94	100		377.5	100.00	

7.4.iii. *H3: Controlling for firm characteristics, there will be no difference between the use of 'no support', social networks, brokers and network substitutes by small employment growth businesses.*

To test *H3*, a two-stage approach is adopted. As a first stage, consideration is given to univariate tests (Chi-square and 't' tests) to highlight simple distinctions between the variables. As a second stage, six multivariate regression models are presented. This will allow for the assessment of *H3*.

7.4.iii.i. Univariate Results

Table 7:7 shows the results of Chi-square tests of association and student 't' tests for REL_EMP, ABS_EMP and LOGITEMP. We shall consider each of the dependent variables in turn. Beginning with AGECO, Table 7:7 shows a statistically significant

positive relationship between AGECO and REL_EMP. Further investigation of the means revealed that REL_EMP businesses were younger (mean age: 19.86) than non REL_EMP businesses (29.56) which indicates, if only for REL_EMP, that younger businesses are more likely to grow. This finding is also evident when we consider ABS_EMP and LOGITEMP although neither of these two groups displays a statistically significant 't' value. Hence, we may consider, at a univariate level, that younger businesses are only weakly associated with employment growth.

Increases in EMPLOY, on the other hand, would seem to be negatively associated with the three growth metrics. Statistical significance is, however, only evident in terms of ABS_EMP and LOGITEMP. For these two measures, there is a strong statistical significance, borne out by the difference in the mean scores between ABS_EMP (28.23) and non ABS_EMP (11.51) businesses and LOGITEMP (21.6) and non LOGITEMP (12.46) businesses. This then, would tend to imply that smaller sized businesses are less likely to be growth businesses.

Outside of these two variables, Chi-square tests were unavailable for many of the variables. Where they were, no statistically significant differences are apparent in terms of legal form, geographic location and for four of the sectoral variables (WHOLESAL, CONSTRUCT, PROFSERV and AGRIC). Table 7:7 does, though, show, in terms of least one of the growth metrics, that CONSERV (REL_EMP) TURN3 (ABS_EMP and LOGITEMP) and TURNGRTH (REL_EMP) some statistical differences are to be seen with TURN3 and TURNGRTH more prevalent

and CONSERV less prevalent amongst growth businesses[89]: A more consistent relationship was found in relation to TURNHIGH and MANU with both of these variables uniformly associated with employment growth[90].

In terms of the use of support, Table 7:7 shows, using 't' tests, that no statistical differences are apparent for ACCOUNT, SOLICIT and BANK. This, in itself, is interesting as these three sources of support were previously identified as the most likely sources of support. It is also just as surprising that ACADEMY and CONSULT are consistently statistically significant and that, across all three metrics, an examination of the mean scores revealed that growth businesses were more likely to use ACADEMY and CONSULT[91].

Outside of these consistent findings, there were a number of statistically significant relationships between one or more growth metrics and type of support. In terms of REL_EMP, 't' tests revealed greater incidences of the use of STAFF, NETWORK, CHAMBER and TRADE[92] whilst ABS_EMP businesses were more likely to use SUPAGENT support (4.28, 4.51). The use of NETWORK is also statistically significant in terms of LOGITEMP businesses with such businesses more likely to use

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[89] In terms of ABS_EMP businesses, TURN3 businesses were more prevalent (57.7%, 32.8%). A similar relationship also held for LOGITEMP businesses (60% and 33.6% respectively). Similar results were also found for TURNGRTH (56.4%, 43.1%). For CONSERV, this situation was reversed (15.4%, 27.9%).

[90] TURNHIGH was more likely to be associated with REL_EMP (25.6%, 5.5%), ABS_EMP (34.6%, 5.6%) and LOGITEMP (46.7%, 6%). In terms of REL_EMP, ABS_EMP and LOGITEMP, MANU businesses were more likely to be in each of these three groups (yes: 46.2%, 42.3% and 46.7%; no: 23.8%, 25.2% and 25.6%, respectively).

[91] In terms of ACADEMY, the mean scores were 4.49 and 4.83 (REL_EMP), 4.38 and 4.82 (ABS_EMP), and 4.13 and 4.82 (LOGITEMP). For CONSULT the mean scores were 4.18 and 4.48, 3.73 and 4.51, and 3.67 and 4.48, respectively.

[92] In terms of mean scores, some of these differences were large with REL_EMP businesses more likely to rely upon STAFF (2.88), NETWORK (3.31) TRADE (3.77), or CHAMBER (4.38) than non REL_EMP businesses for each of these businesses (3.98, 3.95, 3.77 and 4.76, respectively).

this type of support (3.13) than otherwise (3.93). It is also interesting to note that this group used FAMFREND (3.6, 4.24) and NOBODY (4.6, 4.88) more extensively.

Table 7:7: Univariate Tests of REL_EMP, ABS_EMP and LOGITEMP

	REL_EMP		ABS_EMP		LOGITEMP	
	X^2	t-value	X^2	t-value	X^2	t-value
AGECO[93]		1.765*		0.027		0.260
EMPLOY		-0.699		-7.580***		-2.980***
County						
TYNEWEAR	0.187		1.917		0.694	
DURHAM	0.002		N.A.		N.A.	
CLEVE	N.A.		N.A.		N.A.	
NORTHUM	2.310		N.A.		N.A.	
CUMBRIA	0.012		0.051		N.A.	
Legal Status						
LTD_CO	0.758		N.A.		N.A.	
PARTNER	0.646		N.A.		N.A.	
SOLE	0.023		N.A.		N.A.	
Turnover						
TURN1	N.A.		N.A.		N.A.	
TURN2	0.408		N.A.		N.A.	
TURN3	0.260		6.533**		4.400**	
TURN4	0.425		9.204		N.A.	
Change in Turnover						
TURNHIGH	18.893***		27.357***		32.073***	
TURNGRTH	2.459*		0.067		0.828	
TURNSAME	N.A.		N.A.		N.A.	
TURNFALL	N.A.		N.A.		N.A.	
TURNLOW	N.A.		N.A.		N.A.	
Sector						
WHOLESAL	0.001		N.A.		N.A.	
CONSTRUC	0.071		0.776		N.A.	
MANU	8.719***		3.576*		3.243*	
PROFSERV	0.419		N.A.		N.A.	
CONSERV	2.744*		0.152		N.A.	
AGRIC	N.A.		N.A.		N.A.	

[93] All the 't' tests, with the exception of AGECO (306) had 311 degrees of freedom.

Sources of Support			
NOBODY	0.970	0.590	1.958*
FAMFREND	1.716*	0.636	2.148**
STAFF	3.988***	0.578	1.610
NETWORK	2.537**	1.087	2.452**
ACCOUNT	-0.666	-0.041	0.027
BANK	0.696	1.190	0.368
SOLICIT	0.950	0.874	0.802
CONSULT	5.072***	2.268**	4.065***
ACADEMY	4.015***	3.734***	4.927***
SUPAGENT	1.168	1.683*	1.409
CHAMBER	2.956***	-0.197	1.227
TRADE	2.557**	0.348	0.999

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level. N.A. - test not available.

The general impression from these results is that employment growth is related to a number of features of the sample. For example, in common with previous studies (Storey et al, 1987; Evans, 1987; Variyam and Kraybill, 1992; Reid, 1995; and Barkham et al, 1996) there is evidence that the size and the age of a business is related to growth. Table 7:7 also shows that fast growing businesses are more likely to use some sources of support than other less rapidly growing businesses. This is a consistent finding for ACADEMY and CONSULT and, dependent upon the particular growth metric, there are also significant differences in terms of NOBODY, the social network variables (STAFF, NETWORK and FAMFREND) and the network substitute variables (SUPAGENT, CHAMBER and TRADE). There were no statistically significant differences, though, for BANK, SOLICIT and ACCOUNT which is surprising given that it was hypothesised that small employment growth businesses were more likely to use such sources of support.

There are problems with relying too heavily on these univariate indications. First, many Chi-square univariate analyses did not meet the requirements of the test (Siegel, 1956). This limits the utility of the univariate results. A second issue, particularly

with regard to the support variables, is that the mean scores revealed that the level of differences vary between 'sometimes' and 'never'. Thus, although there is statistical significance, there is does not suggest substantive differences between growth and non-growth businesses. A third problem with univariate analysis is that it reduces growth to a set of binary tests. To overcome these difficulties, multivariate regression models are now presented.

7.4.iii.ii. Multivariate Analysis

For each of the three growth metrics, two separate models are presented in the main analysis in Table 7:8. The first set of models (Model 1) considers firm characteristics. The second set examines, holding these characteristics constant, the use of support.

However, before we turn to examine these models in detail, it is obvious from even a cursory examination of Table 7:8 for both the REL_EMP and ABS_EMP models that turnover change is a significant factor in explaining employment change. This is confirmed from an examination of the correlation co-efficients (Appendix 4). These reveal that turnover change was significantly correlated with employment change (p. value: 0.01). This would suggest collinearity issues with the models suggested in the main analysis. On the other hand, however, it may be argued that the non-normal distribution of the REL_EMP and ABS_EMP means that collinearity is likely and perhaps unavoidable. As a conservative solution to this issue, the main analysis presents models that use the turnover measures. In Appendix 5, models are presented without the turnover measures. The similarities and differences of the non-turnover

models are also discussed below. We begin the regression analysis by considering REL_EMP.

7.4.iii.ii.a. REL_EMP Models

Table 7:8 shows two multivariate regression models for REL_EMP. Model 1 considers firm characteristics whilst Model 2 examines these variables and network support variables. What is immediately striking about these models is their low degree of fit. Model 1, for example, is barely statistically significant (0.057) and only has an adjusted R^2 of 0.038[94]. Model 2, represents a slight improvement on this (p. 0.005; adjusted R^2 0.085), which indicates that the inclusion of network support variables increases the degree of fit[95].

Turning now to the models, themselves, we can see from Model 1 that AGECO has a small positive co-efficient across both models and is significant in terms of Model 2. This suggests that as businesses get older they are more likely to see increased levels of employment growth. This is a surprising finding given that it was hypothesised that younger businesses were more likely to see employment growth. EMPLOY, however, has a limited effect upon REL_EMP: negative in Models 1 and 2 but positive in the models shown in Appendix 5.

Geographic location was consistent across both models. When compared to the control variable CUMBRIA, it was found that TYNEWEAR, DURHAM and CLEVE

[94] Moreover, if turnover variables are excluded (see Appendix 5) this model becomes insignificant (0.221) and only has an exploratory power of 1.3%.
[95] This is also true for Model 2 (Appendix 5) which has an adjusted R^2 0.054 and a significance level of 0.026.

all have negative co-efficients whilst the rural county, NORTHUM, has a positive co-efficient. Given that none of these variables are statistically significant, we cannot conclude from the REL_EMP Models that small employment growth businesses are more likely to be concentrated in rural areas. Similarly, although LTD_CO and PARTNER (control: SOLO) and TURN3, and TURN4 (control: TURN1) are positively sloped, the absence of any statistically significant differences suggests that there is only very limited grounds for believing that legal form or turnover level have an impact upon REL_EMP.

The turnover growth variables - TURNHIGH, TURNGRTH, TURNSAME and TURNFALL (control: TURNLOW) – do show that increases in turnover are concomitant with relative employment growth. Table 7:8 also shows, when compared to PROSERV, that REL_EMP businesses are significantly more likely to operate in the manufacturing (MANU) and construction (CONSTRUC) sectors. These relationships, however, are not consistent: MANU is only significant in Model 1 whilst CONSTRUC is only significant in Model 2 (Table 7:8 and Appendix 5). Yet again, therefore, there is only marginal evidence of the influence of firm characteristics on employment growth.

Having controlled for firm characteristics (Model 1), we can see in Table 7:8 that NOBODY is negatively sloped and is statistically significant in Model 2. This also holds in Model 2 in Appendix 5. This suggests, therefore, that some use of support is associated with growing businesses. Model 2, however, does not suggest that the use of social networks or brokers is important. Indeed, whilst FAMFREND, STAFF and BANK have positive, but insignificant, coefficients, Model 2 (Table 7:8 and in

Appendix 5) displays that use of NETWORK, ACCOUNT, SOLICIT and – at a significant level - CONSULT are all negatively associated with employment growth. This is also found for two other network substitutes: ACADEMY and CHAMBER which indicates, contrary to the univariate results, that fast growth business are less likely to use these sorts of support. This is due to the fact that multivariate models, unlike univariate tests, identify the marginal effect of one particular variable whilst holding other hypothesised variables constant (Hair et al, 1995). The consequence of this is that univariate tests may identify a positive relationship between two variables but, in a multivariate model, this relationship may be reversed.

Where there is a positive and significant relationship, it is in terms of SUPAGENT and TRADE. This is also confirmed in Appendix 5. This would, therefore, suggest, if only for REL_EMP, that these use of these network substitutes is associated with businesses that have grown.

7.4.iii.ii.b. ABS_EMP Models

The two ABS_EMP models are all better specified than the REL_EMP models either with (Table 7:8) or without the turnover variables (Appendix 5). This is due to the impact of EMPLOY. In terms of the models with the turnover variables, Model 1 (Table 7:8) shows that it has an adjusted R^2 of 0.087 (sig. 0.001) whilst Model 2 has an adjusted R^2 of 0.149 (sig. 0.001)[96]. Again, as with the REL_EMP models, it is

[96] In terms of the Models in Appendix 5, Model 1 had an adjusted R^2 of 0.079 (sig. 0.038) and Model 2 had an adjusted R^2 of 0.165 (sig. 0.002).

evident from the adjusted R^2 statistics that network support variables represent a positive contribution to the specification of the Models.

In terms of the firm variables, some of variables are consistent with the REL_EMP models: there is little to distinguish between the legal forms of businesses, their turnover levels or the fact that that ABS_EMP businesses are more likely to have experienced higher levels of turnover growth.

Some differences, though, are evident. For example, saw earlier that AGECO, although not statistically significant, did have a small positive co-efficient. This is not present in the ABS_EMP models with AGECO consistently having a negative co-efficient. On the other hand, EMPLOY is both statistically significant and positively associated with employment growth across all models. The ABS_EMP models also differ from the relationships found in REL_EMP models. For instance, although ABS_EMP businesses are significantly more likely to be located in the construction sector (CONSTRUC), this only holds for Model 2 (Table 7:8). Moreover, the geographical disparities evident in the REL_EMP models are dissipated in the ABS_EMP models with NORTHUM attracting a negative co-efficient.

There are also some differences between REL_EMP and ABS_EMP when the network variables are considered for ABS_EMP. For instance, TRADE which was positive and significant in REL_EMP, has a very marginally effect on ABS_EMP. Similarly, although still negatively sloped, CONSULT is no longer statistically significant whilst other brokers and STAFF and NETWORK do seem to make a small positive contribution to ABS_EMP once firm characteristics are controlled. Finally, it

would appear that ABS_EMP businesses, unlike REL_EMP businesses, are less likely to use FAMFREND and ACADEMY.

If there are differences, though, in terms of firm characteristics and network support variables between REL_EMP and ABS_EMP, what is also clear is that NOBODY remains statistically significant. Moreover, as with REL_EMP it is also clear that SUPAGENT has a positively sloped and statistically significant coefficient. This is confirmed in Appendix 5. Yet again, therefore, it would appear that the use of such support is statistically associated with small employment growth businesses.

7.4.iii.ii.c. LOGITEMP Models

Table 7:8 shows that reducing the variability of the data to 1=high growth; 0=no high growth means that there are potentially fewer problems in the specification of the model. This is reflected in the fact that the Cox and Snell R^2 co-efficients are 0.135 and 0.215, respectively.

In terms of the results, what is surprising about both Model 1 and 2 of the LOGITEMP Models is that the turnover growth measures, although positively sloped, are not statistically significant. Indeed, in terms of Model 1, it is apparent that no firm characteristics are statistically significant. In terms of Model 2, though, CONSTRUC is significant and positive. This is confirmed in Appendix 5.

Other than CONSTRUC, only NOBODY, SUPAGENT and ACADEMY are statistically significant. In terms of NOBODY, this again has a negative coefficient. And, as with before, it is clear that SUPAGENT is both positive and statistically significant. ACADEMY, on the other hand, appears to have a negative impact on employment growth.

Overall, therefore, it is possible to reject *H3*. At the univariate level, it is clear, where tests were available, that there were statistically significant differences. This is further evident from the regression models. Independent of firm characteristics, we have seen evidence that support is not used uniformly by small business owner-managers. Indeed, certain features are stable and robust about the use of support. First, it is clear that the use of some form of support is characteristic of growth businesses. This is evident from the fact that NOBODY was consistently negatively sloped across all three growth metrics. A second stable feature of the data is that it does not appear that social networks or brokers make a statistically significant and positive contribution to employment growth.

What is also clear from each of the Models (Table 7:8 and Appendix 5) is that not all of the network substitutes are effective. For instance, it would appear that ACADEMY, typically, is less likely to be used by fast growth businesses. It would, however, appear that SUPAGENT is positively associated with small employment growth businesses.

Table 7:8: Multivariate Regression Results for REL_EMP, ABS_EMP and LOGITEMP

	REL_EMP Models				ABS_EMP Models				LOGITEMP Models			
	Model 1		*Model 2*		*Model 1*		*Model 2*		*Model 1*		*Model 2*	
	B	t	B	t	B	t	B	t	B	Wald	B	Wald
(Constant)	-55.522	-2.134	52.467	0.790	-3.300	2.500	4.855	1.442	-28.957	0.051	-3.409	0.000
AGECO	0.177	1.312	0.247	1.844*	-0.001	-0.106	0.005	0.751	-0.005	0.174	-0.037	1.426
EMPLOY	-0.060	-0.119	-0.099	-0.190	0.055	2.120**	0.053	2.004**	-0.002	0.002	-0.064	0.987
County												
TYNEWEAR	-5.699	-0.522	-7.147	-0.656	-0.359	-0.642	-0.598	-1.082	-0.373	0.178	0.346	0.025
DURHAM	-7.500	-0.610	-9.291	-0.761	-0.112	-0.178	-0.370	-0.598	-9.774	0.032	-15.316	0.064
CLEVE	-14.823	-1.179	-19.621	-1.552	-0.494	-0.768	-0.996	-1.554	-0.460	0.180	-3.602	2.202
NORTHUM	24.579	1.669	21.517	1.448	0.194	0.257	-0.290	-0.385	0.978	0.827	2.943	1.933
Legal Status												
LTD_CO	4.056	0.319	6.916	0.540	0.109	0.168	0.422	0.649	8.833	0.033	12.799	0.042
PARTNER	1.276	0.109	5.462	0.464	0.119	0.200	0.386	0.647	6.594	0.019	8.063	0.017
Turnover												
TURN2	12.480	1.055	11.819	0.996	0.390	0.643	0.690	1.148	7.672	0.027	8.766	0.021
TURN3	7.579	0.503	8.145	0.544	0.636	0.824	0.729	0.961	8.142	0.030	11.612	0.037
TURN4	17.740	0.871	20.271	0.991	0.532	0.510	1.137	1.096	7.079	0.023	9.625	0.026

Change in Turnover												
TURNHIGH	79.772	3.031***	84.552	3.210***	4.834	3.587***	4.612	3.455***	9.712	0.008	10.561	0.004
TURNGRTH	54.203	2.387**	63.107	2.793***	3.355	2.886***	3.521	3.074***	8.409	0.006	10.388	0.004
TURNSAME	35.852	1.541	43.403	1.868*	2.399	2.014**	2.478	2.104**	9.422	0.007	12.090	0.006
TURNFALL	47.876	2.016**	53.186	2.247**	1.752	1.441	1.670	1.392				
Sector									-1.217	0.749	1.566	0.736
WHOLESAL	-9.203	-0.744	-7.668	-0.623	-0.153	-0.242	0.001	0.002	1.944	3.844*	6.685	6.772***
CONSTRUC	4.504	0.393	31.505	2.425**	0.751	1.146	1.283	1.948*	0.130	0.015	2.410	1.324
MANU	25.651	2.002**	7.343	0.640	-0.254	-0.432	-0.035	-0.060	1.247	1.021	1.979	0.671
PROFSERV	-1.878	-0.143	1.361	0.101	0.113	0.167	0.768	1.129	-0.660	0.206	3.816	2.436
CONSERV	4.814	0.402	4.808	0.398	0.486	0.792	0.674	1.100				
Sources of Support									-2.817	4.304**		
NOBODY	-17.744	-2.483**			-0.910	-2.512**			-1.040	2.012		
FAMFREND	0.023	0.006			-0.374	-1.902*			-0.060	0.014		
STAFF	4.275	1.246			0.219	1.262			0.423	0.374		
NETWORK	-0.648	-0.170			0.184	0.952			0.678	0.524		
ACCOUNT	-0.040	-0.011			0.046	0.241			-0.968	1.633		
BANK	0.162	0.040			0.009	0.043			-0.409	0.205		
SOLICIT	-0.760	-0.174			0.338	1.529			-1.438	2.680		
CONSULT	-19.372	-3.317***			-0.424	-1.433			-3.122	7.367***		
ACADEMY	-9.353	-1.105			-1.513	-3.527***			1.684	3.501*		
SUPAGENT	12.638	2.112**			0.791	2.609***			-1.592	2.287		
CHAMBER	-1.352	-0.182			-0.076	-0.201			0.976	2.055		
TRADE	8.204	1.867*			-0.015	-0.069						

R	0.322	0.430	0.387	0.491	N.	294	294
R^2	0.104	0.185	0.149	0.242	Log Likelihood	70.052	41.329
Adj. R^2	0.038	0.085	0.087	0.149	Chi-square statistic (d.f.)	42.52 (20)	58.69 (32)
F.	1.581	1.847	2.399	2.598	Sig.	0.024	0.001
Sig.	0.057	0.005	0.001	0.000	Cox & Snell – R^2	0.135	0.215
d.f.	293	293	293	293			

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

7.5. Conclusions

The first two hypotheses in this chapter have sought to better comprehend the structure of employment growth amongst a sample of small businesses in the Northern region of England. As we have seen previously, this is not an easy process to understand. There remains, for example, particular doubts about the employment contribution of smaller sized businesses. To test this, *H1* investigated the net fertility of various classes of small business. The results of this analysis showed that the smallest sized class of business was the most fertile. This is perhaps unsurprising. Indeed, it may be expected.

Doubts, however, may be expressed either about the analysis or the value of such a finding. For instance, on a methodological level, the analysis does not take account of births and deaths or longer run change. More importantly, it is just as easy to suggest that the smallest size class of business is the most 'turbulent' rather than the most 'fertile' employment size class. As such, it may be anticipated that the fertility of the smallest size class is a statistical feature rather than a sustainable feature: over time it may be anticipated that very many of the gains of this employment size class will dissipate.

Worries about the robustness and reliability of such results have led to attempts to understand more clearly the employment contribution of particular businesses. And, as may be expected from other investigations into employment change, it was found that gross employment growth was concentrated amongst about 5% of the sample of small businesses. This led to the rejection of *H2*. Again, though, and as with *H1*, all

this confirms is a well-known feature of employment growth in smaller sized enterprises.

We have also seen, however, that any investigation into growth business is likely to be partial. There are very many factors that may influence growth: entrepreneurial characteristics; the characteristics of the businesses; and business activities. It is also perhaps just as plausible to suggest that employment growth is a function of serendipity.

H3, however, suggested that it was possible to identify the configuration of support used by small employment growth business. This may be judged important, particularly as such business in the region may provide many of the available job opportunities. Assessing small employment growth businesses, however, is likely to run into measurement and assessment problems. For example, in the six multivariate regression Models detailed in Table 7:8, it was clear that turnover measures were collinear with employment change. Problems are also likely to result regardless of the employment growth metric that is adopted: relative measures over-emphasise smaller businesses; absolute measures over-emphasise larger businesses; and arbitrary measures are likely to lead to reductions in power and efficiency. Finally, it is also clear that the models produced are barely significant. Typically, regression models that explain 10% or so of the variability would be considered to poorly fit the data.

This chapter has attempted, where possible, to control for these issues. Hence, a menu of three differing growth metrics has been offered. Collinearity has also been

considered. It is also clear that the poor fit of the models presented in this chapter is a consequence of the fact that the distribution of employment growth is highly skewed.

These important issues aside, it was possible to reject *H3*. Indeed, holding firm characteristics constant, the multivariate regression models provide some interesting results. For instance, we showed earlier on that there was some evidence, mainly derived from neo-classical interpretations, that growth was entirely dependent on the efficacy of the individual owner-manager. The evidence in this chapter would indicate the contrary: small employment growth business owner-managers do use support in their businesses.

This may imply, following on from Gibb (1993) and Jonanovic (1982), that there is evidence that small businesses are learning organisations. Such a conclusion, however, cannot be drawn from these findings. Partly, this is because we have not assessed the learning state of small business owner-managers both before and after they have grown their business. It is also clear, from the descriptive statistics, that the use of network support fluctuates from 'often' through to 'sometimes' and 'never'. This finding is suggestive, therefore, of an *ad hoc* use of network support.

Where such support is used by fast growth businesses, it was apparent that such businesses were not more likely to use these social sources of support than other small businesses. This may not be too surprising. Previous evidence has indicated that such support mechanisms are predominantly used at the start-up stage of a business rather than growth businesses. The results presented in this chapter confirm this suggestion.

What is perhaps more surprising, particularly given their overall use by small businesses, is the limited and largely negative use of brokers such as accountants, solicitors, bankers and consultants by small employment growth businesses. Such a finding holds for each of the three growth metrics. There are a variety of possible reasons as to why fast growth businesses are not selecting such service providers. For example, in terms of the business, it may be due to the price such providers charge or perceived information asymmetries. Alternatively, brokers such as accountants may be, themselves, faced with information asymmetries and, thereby, consider that it is appropriate to identify and target fast growth businesses. Such issues will be discussed in later chapters.

If brokers are not being used by fast growth businesses, it is also clear that not all of the network substitutes were more likely to be used. This is the case for academic institutions, trade organisations or Chambers of Commerce but, significantly, not for government sponsored support in terms of each of the three growth metrics. There are perhaps two main explanations for this. For instance, it may be speculated that government sponsored support is not more likely to be used but that, of the network substitutes, it is better branded. If so, then small employment growth businesses could be thought to have a higher recognition of such support even if such support was delivered through an academic institution or a Chamber of Commerce. Alternatively, it may be, following the creation of the Business Link network, that government sponsored support, in seeking to identify and target small employment growth businesses, is being used more intensively by such businesses. This implies that we should not be too hasty in dismissing the utility to small employment growth businesses of government sponsored support.

Doubts, still, may be presented about the validity of such findings. For instance, the various six models only measure frequency of use of such support. This says little about the value of particular sources of support to small businesses. In other words, therefore, all that is being measured is the density of relationships rather than the strength of particular ties between the small business and their network support portfolio. Moreover, the research is silent on the particular government sponsored initiatives that seem to support employment growth or the particular services used by fast growth businesses. In essence, therefore, it may be argued that the results, although statistically significant, are not substantively significant (Hakim, 1989) given the low levels of actual use of such support and that it is problematic to demonstrate conclusively that such support directly caused the growth of the business.

Chapter 8: The Use Of Accountancy Support By Small Employment Growth Businesses

8.1. Introduction

The results of the previous chapter were unequivocal: despite being one of the most frequently used sources of support, accountancy support – across all three growth measures – were not more likely to be used by small employment growth businesses. This chapter attempts to understand why this is. Four aspects of the relationship between small employment growth businesses and their accountant are considered. *H4* first of all considers the role that accountants undertake for fast growth businesses. This is measured across three dimensions: the length of time they have been with their accountant, the geographic proximity of their accountant and the role that the accountant is suggested to play in the business. These dimensions of *H4* are analysed using both univariate and multivariate techniques.

The chapter goes onto investigate the take-up of non-statutory support by small employment growth businesses. As we saw in Chapter 4, such support (tax consultancy, management accounting, payroll and PAYE, management advisory services, general financial advice and non-accounting services) are often suggested as being important to fast growth businesses. *H5*, therefore, again using univariate and multivariate techniques, investigates if such support can be associated with small employment growth businesses.

Any take-up of such support is, however, likely to be dependent upon how aware and

knowledgeable small employment growth business owner-managers are of such services. As we have seen, the small business owner-manager may face information asymmetries, particularly given the intangible nature of such non-statutory services. Hence, it may be that if such support is not used, then this may only be due to the relative ignorance of the owner-manager.

It is difficult to assess if such demand-side failings are present because of the Hawthorne effect: the research cannot separate out its role in bringing to attention the presence of such support from the behaviour of the small business owner-manager. Given this difficulty, a proxy is suggested: uninformed consumers are more likely to rely on cost and informed clients are more likely to rely upon a judgement as to the reputation/quality of the accountant. Hence, *H6* investigates if reputation is a more commonly used selection criteria in choosing accountants for non-statutory work than cost. If it is, then this may indicate that there is little evidence of a demand-side failure.

The fourth and final hypothesis (*H7*) considered in this chapter examines the perceived advantages and disadvantages inherent in the use of non-statutory support.

Each of these four hypotheses is examined in turn. We begin, however, with describing the expected signs and outlining the descriptive statistics for *H4* and *H5*.

8.2. Data Description

8.2.i. Expected Signs: Nature of Relationship with Accountant

In previous chapters of this thesis, we saw that there was strong evidence to suggest that small businesses are unlikely to seek support, preferring instead to rely upon their own judgement (Stanworth and Curran, 1976; Cosh and Hughes, 1994; and Curran and Blackburn, 1994). Indeed, Gray (1992) has suggested that "there is strong reluctance to cede, or even share, control of the business either internally or externally" (p. 67). On the other hand, it has been suggested (Birley, 1985; Gibb, 1993, 2000) that support is required to effectively develop a business. Moreover, we have also seen that financial and business skills in many small businesses is often lacking (British Chambers of Commerce, 1996) and that accountants, in particular, are almost always the most common and frequent source of support for small businesses (Lewis and Toon, 1986; Chittenden et al, 1990; Townroe and Mallalieu, 1993; Atkinson, 1994; Curran and Blackburn, 1994 and Bennett and Robson, 1998, 2000a). In general, it may be expected, therefore, that accountants will play a more involved role in the affairs of their clients by being an active member of the management team (MGT_TEAM), providing effective business advice (BUS_ADV) or providing effective financial management (MGTSUPP). It may be also anticipated that small employment growth businesses are less likely to see their accountant as a provider of emergency (EMERGEN) or statutory support (STATORY).

Bennett et al (2000) and Bennett and Robson (2000a) have also shown that the geographic distance may prove an important factor in determining the nature of the relationship that a small business client has with their accountant. Moreover, it may be also expected that there is a correlation between the geographic reach of an

accountancy provider and its size and that small employment growth businesses are more likely to be attracted to bigger, and more geographically diverse, practices (Chittenden et al, 1990). Thus, it may be expected that fast growth businesses are more likely to use national or international (INT_NAT) or regional (REGION) accountancy practices than locally (LOCAL) based practices.

In a similar way, it may be that the length of the relationship between the small employment growth business and their accountant has some bearing on the nature of their relationship. It is difficult, however, to suggest unequivocally the expected direction of this relationship. It may be that fast growth businesses are more likely to have had a short-term relationship with their accountant of 3 or fewer years (KNOW<4) or a moderately long relationship (KNOW>4<7) given the evidence that younger businesses are more likely to grow (e.g. Storey et al, 1987). Smallbone and North (1995) have, however, indicated that older businesses might also grow. It may, therefore, be that fast growth businesses are likely to have had a relationship with their accountant for more than 7 years (KNOW>7).

8.2.ii. Expected Signs: Use of Non-statutory Business Services

It is often recommended that fast growth businesses have a requirement for non-statutory business support (Holmes and Nicholls, 1989; Holmes et al, 1991; Hallett and Bishop, 1991; Kent, 1994; and Kirby and King, 1997). The evidence, however, suggests that the small businesses tend to use their accountant for statutory support (Holmes and Nicholls, 1989; Holmes et al, 1991; Curran and Blackburn, 1994, and Sen and MacPherson, 1998). On the other hand, Kent (1994) has argued that growth businesses, rather than small businesses in general, were more likely to use non-

statutory support such as management advisory services (MAS_SERV) because they have greater informational needs (Storey et al, 1987; Holmes et al, 1991; and Kirby and King, 1997). It may, therefore, be that small employment growth businesses may be expected to make use of tax consultancy (TAX_CONS), payroll and PAYE services (PAY_PAYE), management accounting (MGT_ACC), general financial advice (GEN_FIN) and non-accountancy services (NON_ACC).

8.3. Variable Description

Table 8:1 provides a description of the data for the 313 businesses in the sample. It shows the majority of businesses used a local (51%) rather than a regional (37%) or national/international (12%) accountant. The businesses were also likely to have an established relationship with their accountant, with 60% of them using the same accountant for more than 7 years. In general, the relationship they had with their accountant was likely to be circumscribed: just over a half of them saw their accountant as a provider of emergency (27%) or statutory support (27%). For others, the provision of effective financial management support (16%) or the provision of effective business advice (26%) typified their relationship. Only a tiny percentage (3%) saw their accountant as an active member of the management team.

In terms of support provision, statutory services or non-statutory services that supported statutory services (i.e. preparation of accounts) predominated. For example, the preparation of accounts was the common source of support used by

small businesses (80%) with statutory services such as tax compliance (78%), statutory accounts (59%) and statutory audits (42%) also being important[97].

When non-statutory support was used, the typical service was tax consultancy (56%) or general financial advice (37%). Outside of these two services, there was some use of non-statutory audits (18%), management advisory services (18%), payroll and PAYE services (17%) and management accounting (11%). Non-accountancy services were only used by 3% of the sample.

[97] The incidence of use of statutory accounts and audits may be explained by the fact that only 49% of the 313 businesses were limited companies. Sole proprietorships and partnerships may see little or no advantage for themselves in using these services as they are not compelled to by law.

Table 8:1: Description of the Variables, their Expected Sign and Summary Statistics

Variable	Description	Expected Sign	Mean	Std. Dev.	Median	Min.	Max.	N.
Location								
LOCAL	1 = county, 0 = otherwise (Control Variable)	-	0.51	0.50	0	0	1	306
REGION	1 = Northern region, 0 = otherwise	+	0.37	0.48	0	0	1	306
INT_NAT	1 = Nationally/Internationally, 0 = otherwise	+	0.12	0.32	0	0	1	306
Length of Time								
KNOW<4	1 = known accountant for 3 years or less, 0 = otherwise (Control Variable)	?	0.15	0.36	0	0	1	313
KNOW>4<7	1 = known accountant for 4 to 7 years, 0 = otherwise	?	0.25	0.44	0	0	1	313
KNOW>7	1 = known accountant for more than 7 years, 0 = otherwise	?	0.60	0.49	1	0	1	313
Role								
MGT_TEAM	1 = Is an active member of management team, 0 = otherwise	+	0.03	0.17	0	0	1	313
BUS_ADV	1 = Provides effective business advice for the management of the business, 0 = otherwise	+	0.26	0.44	0	0	1	313
MGTSUPP	1 = Provides effective financial management support, 0 = otherwise	+	0.16	0.37	0	0	1	313
EMERGEN	1 = Is a source of emergency advice, 0 = otherwise	-	0.27	0.45	0	0	1	313
STATORY	1 = Provides statutory service, 0 = otherwise (Control Variable)	-	0.27	0.45	0	0	1	313
Statutory Services								
STAT_ACC	1 = undertaken statutory accounts, 0 = otherwise		0.59	0.49	1	0	1	313
STAT_AUD	1 = undertaken statutory audits, 0 = otherwise		0.42	0.49	0	0	1	313
TAX_COMP	1 = undertaken tax compliance, 0 = otherwise		0.78	0.41	1	0	1	313
COMP_SEC	1 = undertaken company secretarial work, 0 = otherwise		0.10	0.30	0	0	1	313

Non Statutory Services								
PREP_ACC	1 = undertaken preparation of accounts, 0 = otherwise		0.80	0.40	1	0	1	313
TAX_CONS	1 = undertaken tax consultancy, 0 = otherwise	+	0.56	0.50	1	0	1	313
NON_AUDIT	1 = undertaken non-statutory audits, 0 = otherwise		0.18	0.38	0	0	1	313
PAY_PAYE	1 = undertaken payroll/PAYE, 0 = otherwise	+	0.17	0.38	0	0	1	313
MGT_ACC	1 = undertaken management accounting, 0 = otherwise	+	0.11	0.32	0	0	1	313
MAS_SERV	1 = undertaken management advisory services, 0 = otherwise	+	0.18	0.38	0	0	1	313
GEN_FIN	1 = undertaken general financial advice, 0 = otherwise	+	0.37	0.48	0	0	1	313
INSOLVE	1 = undertaken insolvency, 0 = otherwise		0.01	0.11	0	0	1	313
NON_ACC	1 = undertaken non-accountancy services, 0 = otherwise	+	0.03	0.16	0	0	1	313

8.4. Testing the Hypotheses

To test hypotheses *H4* and *H5*, a two-stage procedure similar to that developed in the previous chapter is followed: univariate results are first presented before consideration is given to multivariate regression models. In both cases, the three fast growth metrics developed in the previous chapter are utilised. We begin with *H4*.

8.4.i. *H4: Small employment growth businesses have a similar relationship with their accountant compared to other small businesses.*

8.4.i.a. Univariate Results

Table 8:2 shows Chi-square tests for the geographic location of the accountant, the length of the relationship with the accountant and the perceived role that accountants are suggested to play in the small businesses.

In terms of REL_EMP, the Chi-square tests show no statistically distinct results. Small employment growth businesses are no more likely to use an accountancy practice with a regional profile, no more likely to have been with their accountant for a shorter period and no more likely to perceive the role of the accountant as any different from that of other small businesses. For ABS_EMP, some statistical differences are apparent: they were less likely to have used LOCAL (36.8%, 53%); less likely to have known their accountant for more than 7 years (KNOW >7) (43.6%, and 62%) but were more likely to consider that accountants provided effective financial management support (MGTSUPP) (28.2%, 14.6%). Two differences are

also evident for LOGITEMP businesses: they were more likely to have used a regional provider of accountancy services (60%, 35.7%) and, again, were more likely to see their accountant in terms of MGTSUPP (33.3%, 15.4%).

Table 8:2: Chi-square Tests for REL_EMP, ABS_EMP and LOGITEMP: Location, Length of Time and Role

	REL_EMP X^2	ABS_EMP X^2	LOGITEMP X^2
Location			
LOCAL	0.644	3.464**	N.A.
REGION	1.038	1.136	3.605*
INT_NAT	N.A.	0.660	N.A.
Length of Time			
KNOW<4	N.A.	6.073	N.A.
KNOW>4<7	0.543	0.208	N.A.
KNOW>7	0.375	4.834**	0.269
Role			
MGT_TEAM	N.A.	N.A.	N.A.
BUS_ADV	0.597	1.356	N.A.
MGTSUPP	0.957	4.634**	3.354*
EMERGEN	0.004	2.029	N.A.
STATORY	0.001	0.025	0.304

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

Compared with other small businesses, these results indicate that fast growth businesses only have a marginally different type of relationship with their accountant. These are largely in terms of MGT_SUPP, LOCAL, REGION and KNOW>7. However, the nature of any differences may become clearer, once firm characteristics are controlled for. It is to the multivariate regression analysis to which we now turn.

8.4.i.b. Multivariate Results

Table 8:3 presents multivariate regression results for the geographic location of the accountant, the length of association with the accountant and their perceived role in

terms of the small business. The models presented are similar to that found in Table 7:8 in the last chapter and in Appendix 6 in that Table 8:3 accounts for turnover whilst Appendix 6 drops the turnover models. Where, however, Table 8:3 and Appendix 6 depart from the last chapter is that it does not present the firm models. Neither does Table 8:3 present those firm characteristics that are statistically insignificant. The reason for this is that the onus of the results is on the contribution of accountancy factors to fast growth businesses.

Nonetheless, Table 8:3 does show that some firm characteristics are statistically significant features: EMPLOY, TURNHIGH, TURNGRTH, TURNSAME, TURNFALL and CONSTRUC. All of these variables are statistically significant and positively sloped relationship for REL_EMP and ABS_EMP. There were, though, no statistically significant associations at the firm for LOGITEMP.

Independent of firm characteristics, Table 8:3 shows, for all three growth metrics that the geographic location of the accountant was statistically insignificant. There was, however, some variation in the signs of the co-efficients: in terms of REGION, REL_EMP was negatively sloped but positively sloped for ABS_EMP and LOGITEMP whilst INT_NAT had a uniform negative coefficient across all three growth metrics. This would imply that there is no simple relationship between the geographic location of the accountancy practice and fast growth businesses.

What is statistically significant, at least for REL_EMP and ABS_EMP, is the length of the relationship with the accountant. Table 8:3 shows that KNOW>4-7 (REL_EMP and ABS_EMP) and KNOW>7 (REL_EMP) is negatively associated

with fast growth. Consequently, given that KNOW<4 is the control variable, small employment growth businesses are were more likely to have known their accountant for a shorter period of time. From this, it may be suggested that those businesses that switch accountants, rather than have a longer-term relationship, are more likely to grow. Teasing out such a suggestion is, however, beyond this scope of this thesis as no information was elicited to indicate why small employment growth businesses are more likely to have a relatively youthful relationship with their accountant. What can, though, be suggested is that it unlikely to be due to the age of the businesses. The fast growth businesses in this sample were, typically, not young businesses and Table 8:3 shows that the age of a business (AGECO) is not a statistically significant variable.

Table 8:3 also shows, when compared to STATORY, that the accountants were perceived to be less likely to have adopted a MGT_TEAM and BUS_ADV role. This is also true for EMERGEN, particularly in terms of ABS_EMP. Accountants, relative to STATORY, where perceived to play more of MGT_SUPP role. The evidence for this provision of effective financial management support (MGT_SUPP) is weak: although the coefficients for MGT_SUPP are consistently positive, it is only statistically significant in terms of REL_EMP.

Table 8:3: Multivariate Tests for REL_EMP, ABS_EMP and LOGITEMP: Location, Length of Time and Role

	REL_EMP		ABS_EMP		LOGITEMP	
	B	t	B	t	B	Wald
Constant	-21.481	-0.775	-2.312	-1.618	-28.197	0.056
AGECO						
EMPLOY			0.056	2.079**		
TURNHIGH	80.430	3.031***	4.900	3.582***		
TURNGRTH	54.149	2.379**	3.491	2.976***		
TURNSAME			2.452	2.031**		
TURNFALL	52.312	2.191**	2.039	1.656*		
CONSTRUC	25.827	2.176**				
Location						
REGION	-0.654	-0.073	0.155	0.336	1.461	2.206
INT_NAT	-2.683	-0.198	-0.220	-0.315	-0.356	0.057
Length of Time						
KNOW>4<7	-39.473	-2.963***	-1.407	-2.049**	-2.380	2.655
KNOW>7	-32.357	-2.771***	-0.501	-0.833	-0.865	0.697
Role						
MGT_TEAM	-2.534	-0.100	0.577	0.443	-2.704	1.313
BUS_ADV	-5.153	-0.465	-0.855	-1.495	-0.965	0.576
MGTSUPP	21.134	1.661*	0.103	0.157	0.112	0.010
EMERGEN	-10.939	-1.019	-1.188	-2.148**	-1.996	2.216
R		0.399		0.435	N.	287
R^2		0.159		0.189	Log Likelihood	59.001
Adj. R^2		0.068		0.101	Chi-square statistic (d.f.)	52.87 (28)
F.		1.743		2.144	Sig.	0.003
Sig.		0.014		0.001	Cox & Snell R^2	0.168
d.f.		286		286		

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

In strict terms, the univariate and multivariate results suggest the rejection of *H4*. This is because there is evidence that small employment growth businesses are more likely to use their accountant for MGT_SUPP purposes. It would also appear that

there is some evidence that they are more likely to have developed a relationship with their accountant in the last three years.

However, it is difficult to be unequivocal about the results from Tables 8:2 and 8:3. This is because, outside of the MGT_SUPP and KNOW<4, there are few distinctions between small employment growth and other small businesses in relation to their accountant. The other small businesses are just as likely to use an inter/national accountancy provider and just as unlikely to see their accountant play a pivotal role (MGT_TEAM, BUS_ADV) in their business.

Such a suggestion does not, of course, preclude small employment growth businesses from using non-statutory support. This is examined by *H5*.

8.4.ii. *H5:* Small employment *growth businesses are no more likely than other small businesses to make use of the non-statutory business support.*

To examine *H5*, similar procedures are followed to that developed to that used in *H4*. Hence, we begin by examining univariate Chi-square tests as a preliminary means of investigating the relationship between the use of accountancy support and small employment growth businesses. Following on from this, we investigate the use of non-statutory business services by fast growth businesses. These are investigated using three multivariate regression models which are presented in Table 8:5 (non-turnover models are presented in Appendix 7).

8.4.ii.a. Univariate Results

At a univariate level, Table 8:4 presents Chi-square tests for all of the statutory and non-statutory accountancy services. It shows that many of the tests are either unavailable or display no statistically significant differences. Where there are differences, the most consistent statistically significant variable is statutory audits (STAT_AUD) which is uniformly – across all three metrics – more likely to be used by growth businesses[98]. It is also clear that from Table 8:4 that REL_EMP businesses are more likely to use company secretarial work (COMP_SEC) (30.8%) than non-REL_EMP businesses (8.4%).

With regard to non-statutory services, only three – and only for REL_EMP - statistically significant differences are evident: preparation of accounts (PREP_ACC), tax consultancy (TAX_CONS) and general financial advice (GEN_FIN). Of these, it is evident that REL_EMP businesses were less likely to use PREP_ACC (57.7% and 81.9%) but more likely to use TAX_CONS (73.1% and 54%) and GEN_FIN (65.4% and 34.8%).

Although, these univariate results are somewhat limited by the unavailability of many of the tests, they do again suggest that very few differences are apparent between growth and other small businesses in their use of accountancy support. Moreover, even where there are differences, it would appear that small employment growth businesses principally

[98] In percentage terms, REL_EMP, ABS_EMP and LOGITEMP businesses are much more likely to use STAT_AUD (69.2%, 53.2% and 66.7%) than other businesses (37.7%, 40.5% and 40.9%, respectively).

use non-statutory support for personal rather than business reasons (TAX_CONS and GEN_FIN).

Table 8:4: Chi-square Tests for REL_EMP, ABS_EMP and LOGITEMP: Use of Accountancy Support

	REL_EMP X^2	ABS_EMP X^2	LOGITEMP X^2
Statutory Services			
STAT_ACC	2.192	0.004	0.002
STAT_AUD	8.513***	2.489*	3.876**
TAX_COMP	0.030	N.A.	N.A.
COMP_SEC	13.041***	N.A.	N.A.
Non Statutory Services			
PREP_ACC	8.677***	0.004	1.709
TAX_CONS	3.512**	0.012	N.A.
NON_AUDIT	N.A.	0.147	N.A.
PAY_PAYE	0.078	2.196	N.A.
MGT_ACC	N.A.	N.A.	N.A.
MAS_SERV	N.A.	0.000	N.A.
GEN_FIN	9.500***	0.734	1.713
INSOLVE	N.A.	N.A.	N.A.
NON_ACC	N.A.	N.A.	N.A.

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

8.4.ii.b. Multivariate Results

Table 8:5 goes some way to supporting this suggestion. For instance, independent of firm characteristics, both GEN_FIN and TAX_CONS are consistently positively sloped. Moreover, GEN_FIN is also weakly statistically associated with ABS_EMP.

It would also appear that small employment growth businesses do not make substantive use of other non-statutory business support. Although the use of non-accountancy services (NON_ACC) has a uniform positive coefficient, services that may be thought to aid business development such as management accounting (MGT_ACC) and management advisory services (MAS_SERV) tend to have a

negative coefficient. This is certainly the case with MAS_SERV that is negatively sloped for each growth metric and significantly so in term of ABS_EMP and LOGITEMP. This, therefore, indicates that the accountant's management advisory services are less likely to be used by the small employment growth business. Similar results, albeit at an insignificant level, are also evident for MGT_ACC. What, however, is more likely to be used by small employment growth businesses is payroll and PAYE services (PAY_PAYE). This is significantly and positively associated with small employment growth for each of the three growth metrics.

Such results indicate the rejection of *H5*: small employment growth businesses do make use of a differing configuration of non-statutory support compared with slower growing businesses. Again, such a finding can hardly be taken as evidence that small employment growth businesses are substantively more likely to use non-statutory support. Indeed, with the exception of PAY_PAYE, there are little grounds for believing that the use of non-statutory support is prevalent amongst small employment growth businesses, particularly as management advisory services attract a negative sloped and statistically significant (ABS_EMP and LOGITEMP).

Table 8:5: Multivariate Tests for REL_EMP, ABS_EMP and LOGITEMP: Use of Accountancy Support

	REL_EMP		ABS_EMP		LOGITEMP	
	B	t	B	t	B	Wald
Constant	-62.638	-2.504	-3.821	-3.045	-34.496	0.085
Firm Variables						
EMPLOY			0.058	2.269***		
NORTHUM	27.042	1.811*				
TURNHIGH	77.872	2.940***	4.517	3.398***		
TURNGRTH	53.016	2.311**	3.195	2.776***		
TURNFALL	47.752	2.002**				
MANU	27.187	2.334**				
CONSTRUC					2.353	3.398*
Use of Non-statutory services						
TAX_CONS	5.127	0.592	0.019	0.044	0.479	0.257
PAY_PAYE	21.745	1.990**	1.450	2.645***	2.684	5.455**
MGT_ACC	-6.874	-0.503	-0.362	-0.527	0.805	0.378
MAS_SERV	-16.339	-1.349	-1.512	-2.488**	-3.041	4.792**
GEN_FIN	0.554	0.063	0.953	2.165**	0.828	0.834
NON_ACC	5.149	0.190	1.240	0.913	-0.361	0.024
R		0.351		0.448	N.	294
R^2		0.123		0.201	Log Likelihood	58.2
Adj. R^2		0.038		0.123	Chi-square statistic (d.f.)	54.37 (26)
F.		1.447		2.585	Sig.	0.000
Sig.		0.079		0.000	Cox & Snell R^2	0.169
N.		293		293		0.375

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

8.4.iii. *H6: The selection criteria used by small employment growth businesses for non-statutory business support do not differ from those of other small businesses.*

In terms of the expected signs for *H6*, we have seen that less discerning users of accountancy support are more likely to use cost (COST) as a means of ascertaining the value of the accountant's non-statutory support (Townroe and Mallalieu, 199[illegible].

and Curran and Blackburn, 1994). Alternatively, we have also seen that the reputation (REPUTAT) of a practice is often seen as the principal means by which the value of accountancy services are recognised (Stigler, 1968; Klein and Leffler, 1981; Ricketts, 1987; Davis, 1990; Morgan, 1990, 1991; O'Farrell et al, 1993 and Hitchens, 1997). Small businesses may, however, become aware of the accountancy support through a variety of other informal mechanisms: previously used accountant for non-statutory provision (PREV_USE); previously used accountant for statutory provision (PASTWORK) or through the opinion of third parties (3PARTY) (Morgan, 1990, 1991; File et al, 1994; and O'Farrell et al, 1993).

To examine *H6*, respondents were asked to identify the selection criteria they were likely to use in choosing an accountant for non-statutory work using a 4 point rating scale (1 very likely, 4 not likely). As this question relates to likely use of non-statutory services, it is not possible to utilise the multivariate framework employed in *H3* to *H5*. Instead, *H6* is assessed through descriptive statistics and 't' tests (Table 8:6).

What Table 8:6 shows is that there would appear to be very limited evidence to suggest that informational uncertainties are prevalent. For example, in terms of the mean average scores, all three groups of small employment growth businesses rank REPUTAT as being the most commonly used selection criteria. This is also true of all 313 businesses[99]. It is, therefore, unsurprising that there is no statistically significant difference between the growth businesses and the non-growth businesses. What little difference there is, is confined to REL_EMP with these businesses more

[99] The mean scores for all 313 businesses were PREV_USE: 2.45, PASTWORK: 2.19, 3PARTY: 2.60, REPUTAT: 1.69 and COST: 1.88.

likely to make use of PASTWORK (1.81) as a selection tool than non-REL_EMP businesses (2.22).

In essence, therefore, it is possible to support *H6*. It would appear that there are very few distinctions to be made between the selection criteria used by small employment growth businesses and other small businesses. Moreover, the results of Table 8:6 suggest that we can be cautious about the claims that small businesses fail to use non-statutory support because of their ignorance of the value of such support. If this were so, it may be expected that cost would rank more highly than reputation. But, although cost is an important consideration, this is plainly not the case. Table 8:6, therefore, suggests it is unlikely that the chief reason for the low take-up of non-statutory support by small businesses is imperfect information.

Table 8:6: Chi-square Tests for REL_EMP, ABS_EMP and LOGITEMP: Selection Criteria for Non-statutory Services

	REL_EMP		ABS_EMP		LOGITEMP	
	Mean	t-value	Mean	t-value	Mean	t-value
Selection Criteria						
PREV_USE	2.31	0.631	2.56	-0.630	2.07	1.268
PASTWORK	1.81	1.664*	2.31	-0.650	2.13	0.179
3PARTY	2.42	0.895	2.56	0.246	2.53	0.260
REPUTAT	1.65	0.196	1.69	-0.015	1.67	0.095
COST	1.92	-0.241	1.87	0.046	2.00	-0.491

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

If there is limited evidence of information asymmetries, what then are the perceived advantages and disadvantages of non-statutory services? This is explored in the chapter's final hypothesis:

8.4.iii. *H7: Small employment growth businesses are likely to perceive similar advantages and disadvantages in the provision of non-statutory business support to that of other small businesses.*

It may be hypothesised that small employment growth businesses are most likely to perceive business benefits in the use of non-statutory support. This is in line with earlier reasons that indicated that there are identifiable benefits for the small business in using non-statutory support (Holmes and Nicholls, 1989; Holmes et al, 1991; Hallett and Bishop, 1991; Kent, 1994; and Kirby and King, 1997). Small employment growth businesses may, therefore, see distinct advantages in using BUD&FIN (budgetary and financial information support for the business); SPEC_VICE (specific advice for the business); GENADVICE (general advice for the business) or VIEW (external view on the business). Curran and Blackburn (1994), however, showed that small businesses are more likely to see only advantages in financial advice for personal affairs (PERSONAFF).

In terms of the disadvantages of using an accountant for non-statutory work, we have already seen that cost (COSTWORK) may be an important consideration. Kirby and King (1997), along with Gibb (2000) and Curran and Blackburn (1994), have indicated that a lack of business awareness (LACKBUS) and the remoteness (REMOTE) of the accountant are disadvantages in using an accountant. Similarly,

there may be other perceived deficiencies: worries about the breach of confidentiality regarding business (CONFIDE); concerns about the loss of control over business by management (LOSSCONT) or about the technical language used by accountant (LANGUE).

Using the same rating scale as *H6*, small employment growth businesses, as Table 8:7 indicates, saw that the most common benefit to be derived from employing accountants for non-statutory work was financial advice for personal affairs (PERSONAFF). This was followed by VIEW (external view on the business) and BUD&FIN (budgetary and financial information on the business). These rankings are exactly the same as that found when all 313 business are considered[100] or when small employment growth businesses are compared to other small businesses (Table 8:7).

The reputed advantages in the use of non-statutory support varies little between small employment growth businesses and other small businesses. Where there are differences, these are in terms of GENADVICE (general advice for the business) and SPEC_VICE (specific advice for the business). REL_EMP and LOGITEMP businesses are much less likely to rely on their accountant for GENADVICE (3.19, 3.47) than other businesses (2.66, 2.66, respectively). LOGITEMP businesses are also less likely to see SPEC_VICE advantages (3.6, 3.07).

Such findings reinforce the results in Table 8:5 which suggested that small employment growth businesses principally use accountancy support for personal

[100] For all 313 businesses, the mean scores were VIEW: 2.25, GENADVICE: 2.70, SPEC_VICE: 3.10, PERSONAFF: 2.03 and BUD&FIN: 2.55.

rather than business reasons. It also further indicates that they see very few business advantages in using accountancy support.

The reasons for this become more explicit when we consider the disadvantages of using non-statutory services. Asked to indicate, using the same 4 point rating scale as above, what were the drawbacks of using such services, the most prevalent reasons were either the lack of business awareness by accountants (LACKBUS), the remoteness of the accountant from the business (REMOTE) or the cost of the work (COSTWORK). Other suggested reasons (CONFIDE, LOSSCONT or LANGUE) were less important. Moreover, it is also clear, when compared to other small businesses, that REL_EMP and LOGITEMP businesses are more likely to LACKBUS as a particular issues (2.00, 2.46; 1.93, 2.45, respectively) whilst ABS_EMP businesses are more likely to perceive that their accountant is remote (2.26, 2.65).

What, however, is particularly interesting about this examination of the disadvantages of using non-statutory accountancy support, is that COST is not seen as the primary disadvantage. For REL_EMP, ABS_EMP and LOGITEMP, LACKBUS is either more of an issue or equally an issue (ABS_EMP) than COST. This reinforces the findings above which indicated that there are few grounds for believing that the limited take-up of non-statutory support is to be explained by a lack of comprehension of their value by small business owner-managers.

The statistically significant differences evident in Table 8:7 suggest that *H7* should be partially rejected: small employment growth businesses are more likely to perceive

personal benefits from non-statutory support and more likely to see that their accountant lacks business awareness or is remote from their business.

Table 8:7: Chi-square Tests for REL_EMP, ABS_EMP and LOGITEMP: Advantages and Disadvantages of Non-statutory Services

	REL_EMP		ABS_EMP		LOGITEMP	
	Mean	t-value	Mean	t-value	Mean	t-value
Benefits						
VIEW	2.23	0.088	2.13	0.725	2.27	-0.062
GENADVICE	3.19	-2.476**	2.69	0.066	3.47	-2.890***
SPEC_VICE	3.27	-1.005	3.26	-1.165	3.60	-2.218**
PERSONAFF	2.00	0.128	1.92	0.642	2.07	-0.153
BUD&FIN	2.73	-0.900	2.46	0.518	2.80	-0.922
Costs						
LACKBUS	2.00	2.066**	2.23	1.167	1.93	1.781*
CONFIDE	3.54	-1.211	3.33	0.147	3.47	-0.555
REMOTE	2.31	1.428	2.26	2.115**	2.27	1.214
LOSSCONT	2.92	-0.101	2.72	1.246	2.87	0.149
COSTWORK	2.15	-0.798	2.23	-1.485	2.40	-1.513
LANGUE	3.15	-1.051	2.90	0.599	3.13	-0.691

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

8.5. Conclusions

This chapter has sought to closely investigate the relationship between the small employment growth business and accountancy support. To determine this relationship, four hypotheses were explored: the nature of the relationship (*H4*); the use of non-statutory business support (*H5*); the signalling criteria used for selecting accountants for non-statutory work (*H6*); and the advantages and disadvantages of using these non-statutory support (*H7*).

Certain features of the relationship are now clear. First, there is little evidence to contradict the evidence from the previous chapter that suggested that accountants are not 'over' used by small employment growth businesses to any significant degree. Instead, accountants are mainly perceived to undertake a limited role in the small employment growth business, with their involvement at best being confined to financial management support. Furthermore, there was also some statistical evidence to suggest that a lengthy relationship with an accountant is not significantly associated with fast growth.

Given this, it is perhaps unsurprising that small employment growth businesses make very limited use of non-statutory support (*H5*). We have, however, seen that this cannot simply be explained by a lack of cognisance of such support by small business owner-managers (*H6*). If this were so, then it may be expected that cost would figure more highly in either the selection criteria used to choose an accountant or in the perceived disadvantages of using non-statutory support (*H7*). The evidence in this chapter suggests that neither of these conditions are present: reputation is seen as the foremost means of selecting an accountant whilst the lack of the accountant's business awareness looms very large in the mind of the owner-manager.

Accountants, however, may have a different interpretation of their relationship with their small business clients. This is investigated in the following chapter.

Chapter 9: The Provision Of Accountancy Services

9.1. Introduction

In this chapter we consider the accountant's perspective on the provision of accountancy services to small businesses. To achieve this, we consider four hypotheses. The first, *H8*, investigates if the supply of non-statutory business support is constrained by the limited range of services offered by the accountant. Moreover, it is also suggested that the supply of support may be potentially inhibited by the importance attached by accountants to particular services. Practices that rely on statutory services for the bulk of their fee income may be unlikely to seek to meet the business needs of their clients. It is anticipated that the supply of accountancy services will be moderated by the characteristics of the practice (age, size and geographic scope). *H8* is tested using Kruskal-Wallis tests.

The provision of accountancy support, particularly non-statutory support, is also likely to be moderated by the intangibility of such support and information asymmetries between the accountant and their small business client. If this is so, there may be some grounds for believing that accountants perceive their clients use cost rather than the reputation/quality of the practice to select accountants for non-statutory work. This is tested, again using Kruskal-Wallis tests, in *H9*. *H10* further explores the issues of intangibility and asymmetry. One way the accountant can potentially overcome these issues is to be in regular contact with their clients. It may

also be anticipated that it is they, rather than their client, who initiate non-statutory work. These two aspects are assessed using Kruskal-Wallis tests.

H8, *H9* and *H10* may, however, imply that all accountants perceive a role in supporting business development. This is because, within the practice's portfolio there are likely to be a number of small employment growth businesses. It may also reflect an impetus to support such businesses because they may contribute greater levels of fee-income (Storey et al, 1987). This is perhaps even more important due to the erosion of statutory requirements for small businesses (ICAEW, 1996). Nonetheless, it may be that only a small number of accountancy practices see any real value in directly targeting fast growth businesses. This may be for three reasons. First, there may be problems in identifying and targeting such businesses. Second, fast growth business only represent a small proportion of clients and, however lucrative they may potentially be, the accountant may judge that it is too narrow a niche to develop a focused strategy (Porter, 1980). Third, if these businesses do grow substantially, smaller sized accountancy practices may feel that they are likely to lose such clients to larger practices (Chittenden, 1990).

H11 compares those practices that claim to actively target fast growth businesses with those that do not. It examines whether if there are any difference in the provision of non-statutory business support, in their signalling activities, and in their behaviour towards fast growth businesses. To achieve this, five logistic regression models are presented.

However, before we consider this and the other hypotheses, the chapter begins by

examining the characteristics of the practices that responded. We then go to discuss each of the hypotheses in turn. A discussion of the findings concludes the chapter.

9.2. Practice Characteristics

The questionnaire to the accountants sought information on three aspects of the practice: its size, age and the geographic scope of its activities. In terms of the size of the practice, information was collected on the number of professional and para-professional staff within the practice. The subsequent analysis, however, only uses the number of partners as an indication of the size of the practice. This is for two reasons. First, much of the following analysis is at a univariate level. As such, the discreet size breaks are arbitrary. Second, previous assessments of accountancy provision (e.g. Lewis and Toon, 1986; Chittenden et al, 1990; Hallett and Bishop, 1991) have robustly used the number of partners in a practice as a measure of accountancy practice size.

Analysing partner size, it was found that, of the 159 responses, the mean average number of partners was 2.13 (Std. Dev. 2.04) and that the median average was 1 partner[101]. It was also found that the number of partners followed a non-normal distribution (kurtosis: 7.691; Kolmogorov-Smirnov test's p. value: 0.001). In terms of *H8*, *H9* and *H10*, the non-normality of the partner size variable is less of an issue as

[101] The questionnaire (see appendix 3) also sought to identify the numbers of other professional and para-professional staff (managers, qualified accountants, unqualified/trainee accountants, and specialists) within the practice. The mean average number for each of these was: managers (4); qualified accountants (5.07), unqualified/trainee accountants (9.17), and specialists (4.32). In total, the mean average size of the practices was 12.89 (Std. Dev. 21.45) with a median size of 4.

these hypotheses are investigated at a univariate level. For these hypotheses, practice size was aggregated into three groups: sole practitioner (small); practices with 2 to 4 partners (medium); practices with 5 or more partners (large). However, for *H11*, a log transformation was considered but rejected as this did not normalise the data (kurtosis: 0.370; Kolmogorov-Smirnov test's p. value: 0.001).

The age of the practice was also found to be non-normally distributed (kurtosis: 0.639; Kolmogorov-Smirnov test's p. value: 0.001) with a mean and median age of 27.21 and 15 years, respectively[102]. In terms of the univariate analyses, the age of the practice was also delineated into three groups. Hence, practices were distinguished into those that had been in operation for 3 or fewer years, those that were 4 to 7 years old and those that were older than 7 years. These distinctions follow those found in the previous chapter. Similarly, the survey also collected information on the geographic scope of the practice. This information was subsequently aggregated into three groupings: local; regional and national/international.

[102] Again, although it was found that a log transformation did result in a normalised distribution (Kolmogorov-Smirnov test's p. value: 0.408), little advantage was seen in using such a transformation as many of the analyses are at a univariate level.

Using these aggregations, Table 9:1 shows that the nearly 60% of the practices were small (sole practitioner) with a further 30% being medium-sized (2-4 partners) or large (5 or more partners) (11%). Concomitant with this, it is perhaps unsurprising that the vast majority of practices had either a local (47%) or regional (43%) geographic focus. It is also clear from Table 9:1 that the majority of the practices were established business (older than 7 years) (67%) with only a minority of them being young businesses (13%).

Table 9:1: Aggregated Characteristics of the Practices

Practice Size	N.	%	Practice Age	N.	%	Practice Scope	N.	%
Sole practitioners	94	59.1	3 years old or less	20	12.7	Local	75	47.2
2 to 4 partners	47	29.6	4 to 7 years old	32	20.4	Regional	68	42.8
5 or more partners	18	11.3	Older than 7 years	105	66.9	Inter/national	16	10.1
Total	159	100	Total	157	100	Total	159	100

Using these practice characteristics as controls, the chapter now goes on to discuss each of the hypotheses in turn. We begin with *H8*.

9.3. Testing the Hypotheses

9.3.i. *H8: Taking into account the age, size and geographic focus of the practice, accountants are just as likely to supply non-statutory support as statutory support.*

In terms of the expected signs for *H8*, this research is unaware of any substantive attempts to investigate the supply of accountancy support to small businesses – most studies have, instead, assumed that accountancy practices offer the same types of support (Holmes and Nicholls, 1989; Holmes et al, 1991; Kent, 1994; and Kirby and

King, 1997). There is a similar dearth of studies that have looked at how the supply of accountancy support is affected by the importance of the fee-income to the practice. What, instead, has been noted is that larger sized practices were found to place more value on the provision of non-statutory support (Chittenden et al, 1990). It may, following Porter (1980) that smaller, more localised or younger practices see opportunities in differentiating their services.

To evaluate *H8*, respondents were asked to indicate the nature of the accountancy services offered. These are shown in Table 9:2. The most common services supplied were: the preparation of accounts (PREP_ACC) (94.3%), followed by tax compliance (TAX_COMP) (86.2%), statutory accounting (STAT_ACC) (83.6%), payroll and PAYE (PAY_PAYE) (77.4%), non-statutory audits (NON_AUDIT) (74.8%), statutory audits (STAT_AUD) (74.8%) and company secretarial work (COMP_SEC) (67.3%). This suggests that most accountants offer a full range of statutory and quasi-statutory services. Moreover, although fewer practices offer non-statutory services, they are still widely provided. For example, management accounting (MFT_ACC) is offered by 67.3% of practices whilst 65.4% offer tax consultancy (TAX_CONS) and 57.9% offer management advisory services (57.9%).

It may, however, be expected that the size (Chittenden et al, 1990), age or geographic focus of a practice (Bennett et al, 2000) will have some bearing on the range of services offered by accountancy practices. To test for this, Chi-square tests were conducted on these factors. Unfortunately, particularly in terms of the size of the

practice, tests were not possible where there was fewer than 5 cases in each cell[103]. To overcome this, the size of the practices was further aggregated: sole practitioners and those practices with more than two partners. Using this variable (Size 1), we can still see that Chi-square tests remain unavailable for very many of the statutory and non-statutory services. The reason for this was clear: very few of the sole practitioners offered INSOLVE or NON_ACC services whilst, at the other extreme, very few of the larger sized practices failed to offer STAT_ACC, STAT_AUD, TAX_COMP, PREP_ACC or PAY_PAYE.

What the Size1 variable does show is that there were strong statistical differences for the other variables. Furthermore, an examination of the cross-tabulations revealed a uniform pattern. Larger sized practices were more much more likely to offer COMP_SEC (89.2%, 52.1%), TAX_CONS (89.2%, 48.9%), NON_AUDIT (92.3%, 62.8%), MGT_ACC (90.8%, 51.1%), MAS_SERV (78.5%, 43.6%) and GEN_FIN (61.5%, 22.3%) than sole practitioners.

There are rather more Chi-square tests available for practice age. However, to further highlight differences, it was also decided to separate out practices into two groups: those that were 7 years or younger and those that were older (Age 1). The Age (three groups) and Age1 (two groups) variables show, again, a generally consistent pattern[104]. Older practices, for example, are no more likely to offer STAT_ACC,

[103] An examination of the cross-tabulations revealed that all of the large sized accountancy practices offered a full range of accountancy services. The only exceptions to this were that a minority of large sized firms did not offer insolvency (INSOLVE) or non-accountancy service (NON_ACC).
[104] Part of the explanation for this is that the age of a practice and the size of a practice (number of partners) was correlated (r: 0.41, p. value: 0.05).

TAX_COMP, TAX_CONS, PAY_PAYE, MGT_ACC or MAS_SERV. The differences, instead, are to do with STAT_AUD, COMP_SEC, NON_AUDIT, and GEN_FIN. In each of these cases, practices that were older than 7 years were much more likely to offer these services.

Similar results were also obtained when the geographical scope of the accountancy practice was considered. In terms of a tripartite (local, regional and inter/national) or a binary (local or non-local) definition, it was clear that businesses with a wider geographic scope were more likely to offer certain accountancy services. These services, as is shown in Table 9:2 were statutory services such as STAT_ACC, STAT_AUD and non-statutory services such as TAX_CONS, MGT_ACC, MAS_SERV and GEN_FIN.

Overall, therefore, Table 9:2 indicates several features of the supply of accountancy services. First, accountants, in general, are more likely to offer statutory than non-statutory services. This is to be expected. Such services, whether valued or otherwise by the practice, may be thought of as necessary for a credible product portfolio. Second, many accountancy practices offer non-statutory services such as management accounting and over half offer management advisory services. This would, therefore, indicate that we should not look towards the availability of non-statutory services as the principal reason for the lack of use of such services by small employment growth businesses. Nonetheless, when age, size and geographic scope are considered, it is evident that the practices with a wider reach, which are older and larger are more likely to supply such support. This may indicate that the provision of non-statutory support is limited amongst smaller, younger and more localised accountancy

providers.

Table 9:2: Provision of Accountancy Support by Size, Age and Geographic Scope

	%	Size	Size1	Age	Age1	Scope	Scope2
Statutory Services							
STAT_ACC	83.6	N.A.	N.A.	N.A.	0.401	N.A.	4.183*
STAT_AUD	74.8	N.A.	N.A.	6.443**	5.699**	N.A.	5.040**
TAX_COMP	86.2	N.A.	N.A.	N.A.	0.20	N.A.	0.557
COMP_SEC	67.3	N.A.	24.037***	7.357**	2.692	2.427	2.293
Non Statutory Services							
PREP_ACC	94.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
TAX_CONS	65.4	N.A.	27.756***	0.952	0.100	N.A.	4.092**
NON_AUDIT	74.8	N.A.	17.812***	7.767**	7.726**	2.328	1.315
PAY_PAYE	77.4	N.A.	N.A.	N.A.	0.702	5.155*	1.313
MGT_ACC	67.3	N.A.	27.526***	N.A.	1.096	8.899**	8.230***
MAS_SERV	57.9	N.A.	19.136***	0.169	0.167	N.A.	11.188***
GEN_FIN	38.4	N.A.	24.970***	N.A.	7.548***	3.747	3.558*
INSOLVE	10.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
NON_ACC	8.2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

H8 also seeks to consider the importance of particular accountancy services to the fee-income of the practices[105]. This is shown in Table 9:3. From this, we can see that PREP_ACC was the service that generated the most fee-income for their practice (mean 1.6). This is perhaps unsurprising given the almost universal provision of this service and its importance to statutory work. Table 9:3 also shows that three of the statutory services (STAT_AUD, STAT_ACC and TAX_COMP) were the services next most likely to contribute to the fee-income of accountants (3.1, 3.3, 3.5, respectively). This, in itself, is significant as it implies that accountants, although they may offer a wide range of support, rely upon statutory services for a large proportion of their fee-income. This is further borne out by the fact that non-statutory support such as TAX_CONS, MGT_ACC, and MAS_SERV are ranked three points

[105] Respondents were asked to rank the contribution of particular accountancy services to their fee-income (1 - highest).

higher (all 6.2) than the statutory services.

Again, however, there may be differences in the relative importance of particular services due to the size, age or geographical scope of accountants. To test this, Kruskal-Wallis tests were again used. The results of these tests are also detailed in Table 9:3.

The tests reveal no statistically significant differences for age, size or geographic scope in terms of STAT_AUD, TAX_COMP, TAX_CONS, and NON_AUDIT, suggesting these services are uniformly important to all accountancy practices. There are significant differences, although not of a monotonic nature, for other services. For example, for STAT_ACC and PREP_ACC, the mean ranks revealed that medium-sized practices attached more importance to this services (56.89, 67.62) than either the smaller (69.61, 73.76) or larger sized practices (81.44, 99.39). In terms of COMP_SEC, though, it was smaller sized practices (43.97, 73.76) rather than medium (56.96) or larger practices (81.89) that were more likely to emphasise its importance to fee-income. It is also interesting to note that this pattern also holds for PAY_PAYE, MGT_ACC and MAS_SERV. In each case, the smaller-sized practices were more likely to rank these as being more important (49.68, 41.06 and 33.65, respectively) when compared to medium (64.84, 59.10 and 53.93) or larger sized practices (88.72, 77.89 and 62.65). Such results also hold for GEN_FIN, although at a less statistically significant level (p. value: 0.1).

With one exception[106], these size effects are largely absent when we consider the age of a practice. This is also partly true for the geographic scope of the practices: STAT_ACC, COMP_SEC, MGT_ACC, MAS_SERV and GEN_FIN display no statistically significant differences between local, regional and inter/national practices. Statistical differences are evident, though, for STAT_AUD, TAX_COMP, TAX_CONS; all of which are likely to be seen as more valuable by inter/national (35.38, 42.46 and 33.42 respectively) rather than regional (63.21, 72.97 and 58.21) or local (67.37, 61.66 and 50.06) accountancy suppliers. The direction of these findings is reversed for the other statistically significant variables. Regional providers of accountancy support were much more likely to count PREP_ACC as being important, whilst locally based practices much more likely to value NON_AUDIT and PAY_PAYE[107].

At one level, these results are to be expected. Given the high level of provision of statutory services, it may be have been anticipated that these services would assume a large part of the fee-income of practices. Nevertheless, these results are interesting and surprising. First, statutory provision appears to be the base of most accountancy practices. However, when we examine these results at a univariate level, we find that there is much less uniformity. Indeed, rather than it being larger sized practices which depend upon non-statutory services for much of their income, we find that it is smaller sized practices who are more likely to concentrate upon such services. These results

[106] Medium-sized businesses were more likely to offer MGT_ACC (40.8) than smaller (51.87) or larger sized businesses (57.91).
[107] For PREP_ACC, the mean ranks were: 72.83 (local); 68.86 (regional); and 117.23 (inter/national). For NON_AUDIT and PAY_PAYE, the mean ranks were: 50.70 and 53.32 (local); 66.35 and 63.23 (regional); and 66.86 and 88.75 (inter/national).

would suggest, if only in a limited way, that some practices have specialised and focused upon a differentiation strategy.

In essence, it is clear that *H8* can be rejected. In general, accountants mainly supply and rely upon statutory or quasi-statutory services (PREP_ACC). Small business clients who use such accountancy support may, therefore, find that what is available to them is limited to statutory support. This is less apparent, however, when the accountancy practice is larger or has a wider geographic scope. The supply of accountancy support is also made more opaque as it is clear that certain accountancy practices have chosen to differentiate their offer. This is perhaps inevitable: accountancy practices are, after all, businesses in their own right.

Table 9:3: The Fee-Income Importance of Accountancy Services: Size, Age and Geographical Focus

	Mean	Std. Dev.	Size	Age	Scope	N.
Statutory Services						
STAT_ACC	3.3	1.9	6.159**	0.013	2.363	133
STAT_AUD	3.1	1.5	2.053	1.811	7.642**	118
TAX_COMP	3.5	1.5	0.883	1.277	6.946**	134
COMP_SEC	8.1	2.4	19.847***	1.338	3.854	109
Non Statutory Services						
PREP_ACC	1.6	1.2	10.570***	3.431	20.628***	149
TAX_CONS	5.8	2.3	1.966	1.110	7.078**	103
NON_AUDIT	5.5	2.9	2.569	0.838	6.233**	118
PAY_PAYE	6.7	2.2	18.328***	1.369	9.241**	121
MGT_ACC	6.2	2.6	20.619***	5.308*	2.912	107
MAS_SERV	6.2	3.4	18.541***	2.739	0.935	92
GEN_FIN	8.0	2.6	5.015*	1.268	4.241	62
INSOLVE	6.2	4.0	2.435	N.A.[108]	1.598	16
NON_ACC	10.4	3.7	1.079	0.604	0.268	15

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

[108] Only businesses older than 7 years provided insolvency services.

Nevertheless, it is apparent that accountancy support, particularly non-statutory support, are not commodities with a low asset specificity (Sen and MacPherson, 1998). This would indicate that if the supply of accountancy services is to work effectively, the signalling activities of accountants must be seen to work appropriately. This is discussed in the following hypothesis.

9.3.ii. *H9: Taking into account the age, size and geographic focus of accountancy practices, accountant's perceive that small business clients make no distinction between the selection criteria they adopt for the provision of non-statutory support.*

To investigate *H9*, accountants were asked what signalling criteria their clients used in selecting an accountant for non-statutory work. Taking account of size, age and geographical focus, it is expected that cost will predominate (Nayak and Greenfield, 1994). It may, alternatively be, that clients use reputation (REPUTAT) of the practice (e.g. Davis, 1990; Morgan, 1990, 1991; and Hitchens, 1997) or other factors such as previously used non-statutory work (PREV_USE), specialist knowledge of industry (KNOW), previously performed statutory work (PASTWORK), acceptability to third parties (3PARTY) (Chittenden et al, 1990) or practice's that geographically approximate to their business.

Table 9:4 shows that REPUTAT is, indeed, what accountants perceive as the principal selection criteria used by small business clients. Also important, but less so, were factors such as COST, PREV_USE and 3PARTY. However, there are no statistically significant differences between the criteria: accountants believe their clients

principally select an accountant on the basis of their reputation[109]. This allows us to reject *H9*. Accountants perceive that clients do discriminate between accountants. Furthermore, controlling for age, size and scope, it is evident that reputation, rather than cost, which is the most likely signalling mechanism. This suggests a need to look elsewhere for any explanation of supply-side 'failure'.

Table 9:4: Accountant's Perception of the Selection Criteria Used by Small Business Criteria for Non-statutory Services

	Mean	Std. Dev.	Size	Age	Scope
PREV_USE	1.92	1.15	1.712	2.916	3.411
KNOW	2.31	1.08	2.434	0.476	0.764
REPUTAT	1.54	0.86	3.171	0.986	1.783
PASTWORK	2.22	1.25	4.489	0.216	3.278
3PARTY	2.18	1.09	2.671	1.891	0.180
CLOSE	2.48	1.08	4.080	0.100	0.420
COST	1.87	0.92	2.097	0.940	4.381

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

9.3.iii. *H10: Taking into account the age, size and geographic focus of accountancy practices, accountants are no more proactive than their small business clients in suggesting the use of non-statutory support.*

In a similar fashion to *H6*, *H10* assess who is responsible for the signalling of the

[109] Furthermore, when asked if they felt that their small business clients perceived problems in the use of accountants for non-statutory work, the vast majority of accountants, some 70.9%, believed that small business clients did not perceive particular problems. In terms of the Kruskal-Wallis tests, there were no significant differences in terms of scope (χ^2: 2.967; 2 d.f.), age (χ^2: 1.960; 2 d.f.) and size (χ^2: 1.068; 2 d.f.). Where there were disadvantages in the use of accountancy services, these were principally in terms of the cost of such services (2.35) and the lack of knowledge of company products/processes by accountant (2.89). Again, Kruskal-Wallis tests revealed no appreciable statistical differences for each of these two variables with the Chi-square statistics for cost being 0.160 (size), 2.360 (age) and 0.032 (scope). In terms of the lack of knowledge of company products/processes, there were no size (1.707) or age (3.938) differences but some differences (p. 0.1 level) for scope (4.875) with larger sized practices more likely to see this as a particular issue.

value of the accountant's services. If it is the accountant, then it may be argued that there is little indication of a supply-side problem. If, on the other hand, it is the small business client, then it may be anticipated that there is some sort of supply side deficiency. As with before, it is likely that these results may be moderated by the age, size and geographic scope of the practice.

To ascertain the level of contact, accountants were asked to identify how frequently they contacted their small business clients on a four point scale (1 all, 2 majority, 3 some and 4 none). Table 9:5 shows that there were very few accountants who failed to contact their clients (NOTATALL: 3.85). Some others identified that they contacted their small business clients on a quarterly (3.17), bi-annually (3.28) or monthly basis (3.37). It is also noticeable that there were distinct statistical differences between the sizes of practice, with larger sized practices much more likely to seek to contact their small business clients on a quarterly, bi-annually or monthly basis[110].

Accountants were most likely to initiate contact with regard to the provision of non-statutory services annually (2.93) or continuously (2.94). Table 9:5 further shows that only ANNUAL - and only in terms of the geographic scope of the practice[111] - was

[110] For each of the variables (QUARTERLY, BI-ANNUALLY and MONTHLY, respectively) larger practices were more likely to make contact (61.97, 58.44, 68.83) than medium (70.66, 72.26, 71.27) or smaller sized practices (88.12, 88.00, 86.51). It was also clear that older practices (>7 years) were more likely to contact their small business clients on a bi-annual basis (73.93) than younger practices (4 to 7 years: 92.89; 3 years or younger: 83.40).

[111] Smaller sized practices (74.37) more likely to contact their clients on an annual basis when compared to medium (79.73) or large-sized practices (104.13)

there any further statistically significant differences. Table 9:5, therefore, indicates no clear pattern of contact.

Table 9:5: Frequency of Accountant's Non-statutory Contact with Small Business Clients

	Mean	Std. Dev.	Size	Age	Scope
ANNUALLY	2.93	1.12	0.335	4.443	5.894*
BI-ANNUALLY	3.28	0.81	9.614***	5.305*	2.188
QUARTERLY	3.17	0.81	8.865**	2.236	2.753
MONTHLY	3.37	0.69	5.741*	1.602	2.322
CONTINUOUSLY	2.94	1.00	2.363	2.069	4.124
NOTATALL	3.85	0.52	0.504	1.688	1.595

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

To further examine the nature of contact between the accountant and their small business client, accountants were asked how frequently small business clients used their accountant for advice other than that for statutory purposes. Table 9:6 shows that accountants suggested that a majority of their clients (51.6%) use their practice on a continuous basis. This is followed by use every quarter (17.8%) or, more marginally on a bi-annually (8.9%), monthly (7.6%) or annual basis (8.3%). Only 5.7% of them do not use their accountancy practice for non-statutory provision. Further statistical tests revealed, particularly when the age, size and geographic scope of the practices were collapsed into two groups (>7 years, < or = 7 years; 1 partner, >1 partner; local, non-local), that there were very few instances of significant differences. Indeed, the only apparent difference was in regard to continuous use with medium-sized practices believing that their small business clients were more likely to use them continuously[112].

[112] For Scope, the percentages were 63.6% (medium), 50% (large) and 41.3% (small). For Scope 1, the percentages were 61% (non-local) and 41.3% (local).

Table 9:6: Frequency of Small Business Clients Use of the Accountant for Non-statutory Advice

	%	Size	Size1	Age	Age1	Scope	Scope1
ANNUALLY	8.3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
BI-ANNUALLY	8.9	N.A.	0.162	N.A.	0.055	N.A.	N.A.
QUARTERLY	17.8	N.A.	2.315	N.A.	1.252	N.A.	1.985
MONTHLY	7.6	N.A.	N.A.	N.A.	0.452	N.A.	0.581
CONTINUOUSLY	51.6	3.187	1.674	3.852	0.14	7.010**	6.051**
NOTATALL	5.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

It would appear, therefore, that accountants seem to be in regular contact with their small business clients and the clients, on the whole, appear to use their accountants with some regularity. However, if we examine who initiates the activities that lead to the performance of non-statutory work for the accountant's existing small business clients, a different story emerges. Asked to suggest who initiates contact (4 point scale: 1 all, 2 majority, 3 some and 4 none), we may perhaps expect that accountants are somewhat proactive in their dealings with existing clients. They could do this in a variety of ways: suggesting areas of support (ACC_LED) (Kent, 1994), through their existing statutory association with clients (STATWORK) (Lewis and Toon, 1986), direct marketing to their clients (DIR_MARK) (Diamantopoulos et. al., 1989; Hallett and Bishop, 1991), recommendations from third parties such as the banks (REC_3PAR) or, more tangentially, through recommendations from existing clients (REC_CLIENT) (File et al, 1994). What we may not expect is that accountants would rely upon an approach from their existing client (CLIENTLED). Such a finding would indicate evidence of a supply-side failure. This is because it presumes that small business clients are best placed to understand the financial and management issues faced by their business. Such a view, however, has often been found to be

misplaced (Capital Planning Information, 1982; Gibb and Scott, 1986; Nayak and Greenfield, 1994; and Reid and Smith, 2000). Second, it would indicate that accountants are failing to provide business focused support.

Table 9:7 shows that CLIENTLED is the most likely source of non-statutory work for the accountant. As Table 9:7 shows, CLIENTLED is half a point more likely than (2.57) to provide non-statutory work from existing clients than REC_CLIENT (3.01) or ACCLED approaches (3.04). It is also clear from Table 9:5 that this is independent of size but not of age or geographic scope. With regard to age, it would appear that practices between 4 and 7 years are more likely to rely on clients (65.17) than younger (91.55) or older practices (79.47). Local and regionally based practices are also more likely to rely on this method (74.77, 77.51, respectively) than inter/national practices (104.81).

Further statistically significant differences are also apparent: larger and inter/national practices are more likely to use DIR_MARK as a means of gaining clients, to be more proactive (ACC_LED), and to use their existing statutory service association (STATWORK)[113]. Medium-sized practices were more likely to use third parties (REC_3PAR), regional providers were more reliant upon recommendations from existing clients (REC_CLIENT) and younger practices were more likely to rely upon STATWORK[114].

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[113] The mean ranks for DIR_MARK were local (88.16), regional (73.74) and inter/national (58.69). Using the same format, the mean ranks for ACC_LED were 86.45, 75.27, and 60.19, respectively. For STATWORK they were 88.36, 71.40 and 67.53. In terms of practice size, (small, medium and large respectively), the mean ranks were: 88.26, 72.01 and 47.65 (DIR_MARK), 90.74, 62.21 and 61.18 (ACC_LED) and 85.53, 71.41 and 64.26 (STATWORK).

[114] The mean rank for medium-sized practices was 68.94 but 75.03 and 84.96 for larger and smaller practices, respectively. Regional providers were more likely to utilise REC_CLIENT (70.31) than local (82.65) or inter/national providers (98.50). In terms of STATWORK, the mean score for young practices was 66.45 whilst it was 95.78 for moderately older practices and 74.64 for older practices

Table 9:7: Sources of Non-statutory Work Amongst Existing Small Business Clients

	Mean	Std. Dev.	Size	Age	Scope
CLIENTLED	2.57	0.80	1.214	5.133*	6.769**
DIR_MARK	3.68	0.56	20.853***	2.047	11.327***
ACCLED	3.04	0.76	18.044***	0.664	6.135**
STATWORK	3.15	0.73	6.046**	8.294**	7.269**
REC_3PAR	3.21	0.62	5.773*	4.197	3.292
REC_CLIENT	3.01	0.75	0.658	0.648	7.381**

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

Similar results are also apparent if we look at the actions that lead accountants to provide non-statutory services for new clients. Using the same rating scale, we find that accountants are principally reliant upon the recommendations from clients (2.44) rather than recommendations from third parties (2.99) or direct marketing (3.64) (Table 9:6). In terms of statistical differences, it was again found that larger sized practices and inter/national providers were more likely to utilise DIR_MARK, that medium sized practices emphasised REC_3PAR and that regional practices were also reliant upon REC_3PAR and REC_CLIENT[115].

[115] The mean ranks for DIR_MARK were: 90.75 (small), 70.56 (medium-sized) and 48.5 (large); 88.37 (local), 75.32 (regional), and 60.63 (inter/national). For REC_3PAR they were: 92.76 (small), 59.27 medium-sized) and 67.50 (large); 87.61 (local), 72.03 (regional), and 78.19 (inter/national). Finally, the mean ranks for REC_CLIENT were 87.45 (local), 66.63 (regional), and 101.88 (inter national).

Table 9:8: Sources of Non-statutory Work Amongst New Small Business Clients

	Mean	Std. Dev.	Size	Age	Scope
DIR_MARK	3.64	0.57	23.434***	4.480	9.081**
REC_3PAR	2.99	0.71	23.968***	1.599	5.453*
REC_CLIENT	2.44	0.82	0.176	0.621	13.366***

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

Based upon the totality of evidence presented in Tables 9:5 to 9:8, it is possible to reject *H10*. Instead, it implies that accountants do discriminate between their small business clients. This may not be altogether surprising as there are likely to be at least some variation in the performance of these businesses. What, however, is more surprising is that there is strong grounds for believing that accountants adopt, on the whole, a reactive rather than proactive approach towards their small business clients. Indeed, it is clear that it is the small business client, rather than the accountant, which is the most likely to initiate contact over non-statutory provision. In some respects, this may be thought of as being positive, assuming, of course, that small business owner-managers are cognisant of the particular financial or management problems that they face. Unfortunately, we have seen evidence (e.g. Nayak and Greenfield, 1994) which has suggested that small business owner-managers often have weak management skills, particularly in relation to financial matters. Therefore, it may be suggested, especially as accountants have adopted a reactive rather than proactive posture towards their clients, that there exists the opportunity for accountants to fail to adequately support at least some of their small business clients.

However, the provision of non-statutory support may only be required in certain cases. Moreover, whilst this thesis has assumed that these are likely to be used by

small employment growth businesses, it may be that there is little need even amongst such businesses for such support. Such a view would resonate with the findings of Chapter 8. Nevertheless, if there was a need for non-statutory support by small employment growth businesses, is it likely that there will be differences between accountancy practices that claim to target such businesses and those that do not. This is investigated in the final hypothesis:

9.3.iv. *H11: Independent of age, size and geographic scope, accountancy practices that target growing companies are no more likely to behave differently than those practices that do not target such businesses.*

To test this hypothesis, respondents were asked if they actively targeted growth businesses. 28 (17.6%) of the available 159 responses indicated that they, indeed, did seek to target in this way. It should, however, not be assumed that this was a highly focused strategy by such practices. For instance, Chi-square tests revealed that such businesses were also likely to target by industrial sector (X^2: 7.929**; 1 d.f.), and the legal form of the business (X^2: 48.342***; 1 d.f.). Furthermore, these practices were also more keen on start-ups (X^2: 30.855***; 1 d.f.), and mature businesses (X^2: 75.563***; 1 d.f.).

There may be two principal reasons for this hazy focus on growth businesses. First, it may be that these accountants, although they claim to be interested in growth businesses, are actually interested in increasing the total number of clients in their portfolio. This, indeed, seems very likely as, when asked about their plans for the future growth of the practice, the pre-eminent reason given was the desire to attract

new clients (NEWCLIENTS). As Table 9:9 indicates, this was a more likely plan (4 point scale: 1 very likely, 4 not at all) when compared with the better marketing of their existing services (BET_MARK), increasing the scope of their services to established clients (INC_SCOPE), concentrating upon non-statutory work (NON_STAT) or attracting fast growth businesses (FASTGROW).

As Table 9:7 further shows, there were also pronounced statistical differences in terms of the size and the geographic scope of these practices. In all cases of significance - except the taking over (TAKEOVER) (medium-sized practices more likely) and merging with other practices (MERGE) of other practices (regional providers more likely) – the mean ranks indicated that it was larger sized practices and inter/national practices that were more aggressive[116]. These practices, therefore, were more inclined to improve their marketing, increase the scope of their services, attract new clients, expand into new areas (NEW_GEOG) and attract fast growth businesses.

[116] In terms of size (small, medium, large, respectively), the mean ranks for each variable were: BET_MARK (94.34, 66.95, 39.22), INC_SCOPE (99.32, 56.91, 39.39), NEWCLIENTS (93.19, 61.70, 58.89), TAKEOVER (96.72, 54.72, 58.67), NEW_GEOG (89.56, 67.34, 63.11), MERGE (88.97, 68.19, 63.97), and FASTGROWTH (95.85, 60.43, 48.36). In terms of geographic scope (local, regional, inter/national, respectively), the mean ranks for each variable were: BET_MARK (91.73, 73.86, 51.09), INC_SCOPE (98.40, 66.89, 49.47), NEWCLIENTS (91.65, 71.07, 63.31), TAKEOVER (87.66, 71.01, 82.28), NEW_GEOG (92.55, 70.08, 63.34), MERGE (85.62, 68.77, 101.38), and FASTGROWTH (92.10, 74.76, 45.53).

Table 9:9: Future Plans for the Practice

	Mean	Std. Dev.	Size	Age	Scope
BET_MARK	2.26	1.10	29.086***	2.688	13.339***
INC_SCOPE	2.31	1.03	45.645***	3.999	26.423***
NON_STAT	2.48	1.05	2.255	0.508	1.745
NEWCLIENTS	1.74	0.92	22.786***	1.652	11.394***
TAKEOVER	3.30	0.78	36.360***	0.247	5.622*
NEW_GEOG	3.32	0.77	12.118***	0.617	13.070***
MERGE	3.43	0.61	11.168***	0.092	10.873***
FASTGROWTH	2.91	0.97	30.881***	0.129	16.497***

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

Another reason for the lack of an exclusive concentration upon growth businesses is perhaps that, in common with others, accountants may find if difficult to define and target 'growth' businesses. This may explain the relatively low position afforded FASTGROWTH and the lack of statistical significance of NON_STAT in Table 9:9. However, let us take the claim that they are actively targeting growth businesses at face value. This may not seem so strange as, at least for existing clients, it is very plausible that they have access to the performance of those businesses in their portfolio that are growing. Assuming, therefore, that they can actually target and define growth businesses, it may be anticipated that there will be some difference in their behaviour.

To assess this, five logistic regression models are presented in Table 9:10 (1=target growing business, 0=non-target). The first of these models (Model 1) simply seeks to identify the influence of practice characteristics on the likelihood of a practice targeting growing businesses. Hence, four variables are shown (see earlier for descriptive statistics); AGE (age of practice); SIZE (number of partners); and the

geographic scope of the practice (LOCAL (control variable), REGIONAL, INT_NAT (inter/national)). In line with previous studies (Chittenden et al, 1990), it may be expected that larger, more established practices are more likely to target fast growth businesses.

Model 2 uses both practice characteristics and the provision of non-statutory business support (TAX_CONS, PAY_PAYE, MGT_ACC, MAS_SERV, GEN_FIN, NON_ACC) to explain targeting[117]. These suggestions follow the earlier suggested expected signs (e.g. Kent, 1994).

Model 3 further adds to these variables by considering the perceived signalling criteria used by small business clients. It is to be expected that COST would be less likely to be used as a selection criteria than PREV_USE, KNOW, REPUTAT, PASTWORK, 3PARTY and CLOSE (Chittenden et al, 1990). As such, COST is the control variable.

Model 4 uses all these variables but suggests that the level of contact that an accountant has with their small business client (Table 9:5), may influence the targeting of fast growth businesses. Hence, NOTATALL (control variable) is compared to ANNUALLY, BI-ANNUALLY, QUARTERLY, MONTHLY, and CONTINUOUSLY to tease out differences in behaviour.

[117] A logistic regression was also attempted on the importance of fee-income for these six non-statutory business services. It was found that this analysis was not possible due to too many missing cases.

Further behavioural differences are analysed in the final model (Model 5). This investigates the likely source of non-statutory work by examining CLIENTLED, DIR_MARK, ACCLED, STATWORK, REC_3PAR and REC_CLIENT in terms of existing clients (see Table 9:7). It may be expected, following the earlier suggested signs, that there is likely to be some difference between CLIENTLED and all of the other variables. CLIENTLED, therefore, is used as the control variable.

Turning now to the results, we can see from Model 1 (Table 9:10), that AGE has a negative coefficient and is statistically insignificant. This applies to all five Models. This weakly indicates, therefore, that younger accountancy practices are more likely to pursue growing businesses. In terms of SIZE, the reverse result is obtained. Across all five Models, but only in terms of Model 1 (p. value: 0.1), we can see that there is some evidence to suggest that larger sized practices are more likely to target growing businesses. What, however, is very apparent from Model 1 and the four other Models, is that INT_NAT practices are much more likely to target such businesses than LOCAL practices. To a certain extent, this is also true of REGIONAL (Model 1) as it is consistently is positively sloped.

In terms of the non-statutory business services, we can see that there are only two statistically significant variables: MGT_ACC (Models 2 to 5) and NON_ACC (Models 2, 3 and 4). The other services, whilst on the whole positively sloped (except PAY_PAYE), do not make a sizeable contribution and, from this, it may be suggested that the services offered by targeting practices differ little from the services provided by businesses that do not target growth businesses.

Similarly, in comparison to COST, geographic proximity (CLOSE) (Models 3 and 5) and 3PARTY (Model 4) were perceived to be more likely to be used by small business clients. Crucially, there was no statistically significant difference between COST and REPUTAT or any other of the hypothesised variables.

There is also limited evidence to suggest that those practices that target are more likely to be in regular contact with their small business client. Compared to the control NOTATALL, Model 4 shows those practices targeting growth businesses were less likely to do so on a quarterly (statistically significant) or bi-annually basis. They were, however, more likely, at a statistically significant level, to contact their clients on a monthly basis. But, as Model 4 attests to, they were only very marginally likely to contact their clients on a continuous or annual basis.

Finally, Model 5 displays, when compared with the control variable CLIENTLED, that accountants targeting growth businesses are less likely to have used DIR_MARK as a mechanism for sourcing non-statutory work. They are also, albeit at a statistically insignificant level, less likely to rely upon their own activities (ACC_LED) or the recommendations of third parties (REC_3PAR). Positive coefficients are, though, evident for STATWORK and REC_CLIENT although, again, at a statistically insignificant level.

The results from these five Models do not indicate that those practices that claim to target growth businesses operate or behave in a significantly different way. For instance, once practice characteristics are controlled for, there is little evidence that they are more likely to offer non-statutory services. It is also evident, that they do not

perceive meaningful distinctions between the selection criteria used by their small business clients. This may, of course, suggest that there are some difficulties in signalling their activities towards small business clients. If so, it would seem that accountancy support is not actively promoted. This is evident given that there are only marginal differences in their levels of contact. It is further apparent when we consider the sources of non-statutory work. For example, such practices are much less likely to consider the value of direct marketing. In essence, therefore, it is not possible to reject *H11*.

Table 9:10: Logistic Regression Analysis of Accountancy Practices that Actively Target Growth Businesses

	Model 1		Model 2		Model 3		Model 4		Model 5	
	B	Wald	B	Wald	B	Wald	B	Wald	B	Wald
Constant	-2.454	26.298	-3.237	14.856	-4.151	8.519	-3.846	2.424	1.281	0.180
Practice Characteristics										
AGE	-0.015	2.110	-0.015	2.024	-0.015	1.767	-0.019	2.315	-0.017	1.955
SIZE	0.189	2.887*	0.053	0.143	0.087	0.324	0.042	0.061	0.162	0.909
REGIONAL	0.916	2.989*	0.730	1.746	0.645	1.227	0.794	1.555	0.715	1.308
INT_NAT	3.493	16.689***	3.643	13.441***	3.582	12.086***	4.099	11.851***	4.050	12.506***
Non-statutory Services										
TAX_CONS	0.181	0.063	0.255	0.116	0.529	0.426	-0.283	0.097		
PAY_PAYE	-0.713	0.744	-0.523	0.358	-1.039	1.098	-0.651	0.431		
MGT_ACC	1.645	3.493*	1.785	3.827*	1.998	3.709*	1.930	3.138*		
MAS_SERV	0.059	0.008	-0.056	0.006	-0.397	0.264	-0.907	1.244		
GEN_FIN	0.314	0.300	0.353	0.334	0.230	0.121	0.062	0.008		
NON_ACC	1.427	3.693*	1.626	3.967**	1.891	4.518**	1.337	2.379		
Selection Criteria										
PREV_USE			0.033	0.008	0.258	0.519	0.033	0.006		
KNOW			0.022	0.005	0.023	0.005	0.098	0.088		
REPUTAT			-0.005	0.000	0.201	0.325	-0.142	0.181		
PASTWORK			0.006	0.000	-0.320	0.745	0.062	0.027		
3PARTY			-0.520	2.386	-0.672	3.289*	-0.458	1.643		
CLOSE			0.608	4.411**	0.475	2.283	0.661	4.729*		

Frequency of Accountant's Contact					
ANNUALLY	0.320	0.991			
BI-ANNUALLY	-0.367	0.723			
QUARTERLY	-0.971	5.357*			
MONTHLY	1.137	3.944*			
CONTINUOUSLY	0.004	0.000			
Direction of Contact					
DIR_MARK			-1.200	3.927**	
ACCLED			-0.730	2.433	
STATWORK			0.736	2.461	
REC_3PAR			-0.358	0.493	
REC_CLIENT			0.098	0.048	
N.	157	157	156	155	154
Log Likelihood	121.81	111.44	104.77	94.43	94.01
Chi-square statistic (d.f.)	25.42 (4)	35.79 (10)	42.06 (16)	48.94 (21)	52.03 (21)
Sig.	0.000	0.000	0.000	0.000	0.000
Cox & Snell – R^2	0.149	0.204	0.236	0.271	0.287

Note: *** statistically significant at 0.01 level; ** statistically significant at 0.05 level; and * statistically significant at 0.1 level.

9.4. Conclusions

This chapter has examined evidence for a supply-side failure in the provision of accountancy support, particularly non-statutory support, by accountants. It has examined the supply of accountancy services (*H8*), the selection criteria used by small businesses (*H9*), the direction of contact between the accountant and their small business client (*H10*) and whether or not there were any operational or behavioural factors that differentiated those practices that claimed to target growing businesses (*H11*).

It is clear that a significant factor affecting the results is the size and geographic location of the accountancy practice. Larger practices and practices with a wider geographic scope offer a wider range of accountancy services, were more aggressive in their future plans, and more likely to target fast growth businesses. An examination of the fee-income of accountancy practices demonstrated that smaller sized practices were more likely to focus upon non-statutory support.

The impact of practice characteristics does not, however, provide grounds for accepting *H8*. It is clear that accountants, in general, are less likely to offer non-statutory services or derive the bulk of their fee-income from such support. It is also clear that accountants do not perceive that there are difficulties in the signalling of their non-statutory activity (*H9*). It may, therefore, be thought that accountants do not face significantly difficulties in the provision of non-statutory support. Accountants, however, were found to be reactive in promoting such support. They principally rely

upon their small business clients to notify them of the need for such support (*H10*). It is also clear that they adopt a very limited strategy towards growth businesses (*H11*).

The accretion of evidence in this chapter could imply that the supply of accountancy support is sub-optimal for the fast growth business. This suggestion is dependent upon the sense that a) small business owner-managers may be unaware of their support needs and b) that fast growth businesses are more likely to need greater levels of accountancy support. If such conditions are present then there are grounds for believing that small employment growth businesses will be constrained by not receiving appropriate advice and support. This may be particularly important in economically deprived areas such as the Northern region of England. A second implication of these results is that, with the importance of statutory work being eroded (ICAEW, 1996), there is a likelihood that the accountancy profession in the Northern region is threatening their viability as businesses by failing to adequately promote their services.

Chapter 10: Conclusions

10.1. Introduction

This final chapter of the thesis argues that small employment growth firms are a priority for regions such as the Northern region which have low levels of small business activity. In doing so, the thesis, however, has not sought to provide an improved measure of small business performance. Instead, it has suggested that central to development of small employment growth firms is the particular configuration of support used by such businesses. Until now, much of the available research evidence has suggested that the interaction of small employment growth firms and their support providers is not necessarily straightforward or unproblematic.

Indeed, previous research evidence has also suggested that the relationship between small employment growth firms and key providers of support such as accountants is often limited. Such support, in regions such as the Northern region, may be thought to be critical as small employment growth firms may need greater levels of support than elsewhere.

This thesis has, therefore, examined a sample of interactions between small employment growth firms and accountants in the Northern region. The thesis, however, has primarily sought to examine the provision of advisory support to small employment growth firms as a competitive market, and draws upon data from both such firms and their accountants themselves to show the character, and limitations of

that market itself.

In so doing, this thesis has made a number of contributions to our understanding of small businesses:

- It has again demonstrated that the Northern Region is, arguably, the 'least' entrepreneurial region in the UK;
- It has, for the first time, brought together the previous analyses by Gallagher et al of employment change in the UK and related that to the small employment growth firm;
- It has demonstrated that government sponsored support is used by small employment growth businesses in the Northern Region;
- It has indicated that small employment growth businesses do not neglect to use non-statutory accountancy support because they fail to understand them; and
- It has demonstrated that accountancy support in the Northern Region is largely failing to appropriately supply non-statutory support both to small business clients and small employment growth businesses in particular.

This final chapter of the thesis examines the implications of each of these contributions in turn, discusses ways in which the research may have been alternatively designed and suggests possible areas of future research.

10.2. The 'Least' Entrepreneurial Region of the UK

In Chapter 2, we saw that there has been a dramatic recorded change in the UK enterprise population over the last twenty years. There has also been similarly significant change in the sectoral composition of UK enterprises since 1980. A variety of reasons were suggested for such changes: enterprise culture, 'push' and 'pull' factors, large firm fragmentation, changes in demand, and a change in innovatory or technology propensities. Other explanations could have been offered (e.g. a decrease in the regulatory burden or the effect of privatisation (Curran, 1999)) but, what we saw is that it is difficult to isolate out the major drivers of economic

change.

However, whilst there has been a marked change in the size and sectoral structure of the enterprise population, there has been little change in its spatial distribution (Martin, 1993). Indeed, it would appear, based upon VAT registration and de-registration rates, that we could claim that the Northern Region of England is perhaps the 'least' entrepreneurial region in the UK. Such a suggestion is neither new nor novel (Storey, 1982).

Nevertheless, it may be argued that, by using VAT as our principal guide, we are underestimating such business activity in the region. Businesses in the region may be able to quite happily persist at turnover levels lower than the VAT threshold. Set against this, we have seen that there are good grounds for arguing that the Northern region's entrepreneurial propensity and capacity is less than it could be. For some, particularly policy providers, the analytical re-affirmation that the region has limited small business activity, however, may be seen as unhelpful. For them, the issue, instead, may be that there is a need to seek out ways to improve the quantity and quality of such business activity rather than remind them of the region's corporatist culture, the failings of its foreign direct investment strategy, the limited human capital attributes of its workforce or the dynamic effects of the steady – and continuing - erosion of its manufacturing base.

In many respects, this thesis has provided little to guide policy provision in the Northern region. One major reason for this is that if the Northern region is so unique then it may have been appropriate to consider other, perhaps more prosperous, regions

of the United Kingdom in the thesis. In this way, it may have been possible to contrast business activity in the Northern region more effectively.

To do that, however, the thesis would have needed to concentrate upon developing further measures to delineate business activity. Hence, consideration could have been given to human capital variables of the owner-manager such as their age, gender, previous experience, educational attainment levels and ethnic origin. Similarly, it would have been useful to consider business activity variables such as their involvement with research and development, training activity, innovatory propensity, level of business planning, the competitive intensity of their main market and on how reliant they were on a few suppliers and customers (customer and supplier concentration).

Accessing these variables would, in hindsight, have allowed a better understanding of the nature of entrepreneurial activity within the Northern region – particularly if it had been compared to a region such as the South East of England. Nonetheless, what this thesis has exposed to policy providers is that there is a need, particularly in regions such as the Northern region, to reassess previous regional economic policy - especially if the purpose of such policy is to improve the economic capacity of less economically developed regions.

10.3. An Analysis of Employment Generation

One advantage, however, of this thesis has been its close discussion of the job

accounting literature. In Chapter 3, for example, we saw, for the first time, the various Gallagher et al studies brought together. These indicated, in line with Birch, (1979), that employment generation was most likely to occur amongst the smallest size class of business (1-19 employees). This thesis has gone some way to confirming such findings (*H1*).

Nonetheless, doubts exist about the efficacy of such a finding. In terms of this thesis, it was clear that the methodology employed was a limited and partial attempt to replicate Gallagher et al's results. Partly, this was because it would have been more appropriate to consider employment change in the UK rather than the Northern region. Similarly, attention could have also been given to firm births and deaths within a components of change analysis.

On balance, however, it would have been inappropriate for the thesis to consider this route more fully. In part, as Chapter 3 also showed, there are considerable doubts about the sustainability of small businesses, their likely non-economic nature ('lifestyle' business), and, consequently, their limited aptitude for employment growth. It was also shown that there were statistical doubts about the accounting methodology used in these studies. Indeed, this thesis has suggested that job accounting studies are open to statistical interpretation (and political manipulation) and that every time that we consider the fertility of small businesses we may, just as well, substitute this with 'turbulent'.

On reflection, therefore, an alternative measure of firm performance could have been used. As we have seen, Barkham et al (1996) have suggested that turnover is the

measure most likely to be used by small business owner-managers. Alternatively, consideration could have been given to issues of financial viability by measuring profitability or the lack of it. Such a measure, however, is often difficult to operationalise and is often skewed by the vagaries of the particular treatment of profitability. Besides, this, from a policy perspective, it may have been better (although this is not a target for Business Links) to have considered some measure of the productivity of a business (e.g. sales per employee). This could have given the thesis a crisper interpretation of the 'value added' of a particular business as it would have made some allowance for productivity gains. However, as with Davis et al's (1996) alternative job accounting analysis, it may be that whatever measure is adopted is open to interpretation.

Albeit limited though employment is as a measure of firm performance, the thesis did go on to suggest that employment generation is skewed towards a small percentage of businesses (*H2*). This is in line with previous findings (Storey, 1985; Cosh and Hughes, 1998). Again, we may doubt the robustness of this finding. For a start, the thesis used cross-sectional data and confined itself to a two-year period of employment change (1994-1996). Similarly, little heed was taken of the state of the regional or national economy for this period. It may, therefore, be that employment change is not due, as assumed in this thesis, to the activities of the individual businesses but wider changes in the economy that are a function, *inter alia*, of business cycles.

Retrospectively, only partial solutions could have been offered to resolve these issues. For example, it would have been perhaps more appropriate to consider employment

change over a longer period than two years. It would also have been more appropriate to consider a longitudinal study rather than a cross-sectional study. This could have been operationalised by identifying a particular panel of businesses at the start of the research and following their fortunes over a five year period. This, indeed, was one of the ways in which the thesis was initially conceived. However, it became apparent very early on in this thesis that a panel study would require a large number of businesses at time *t* to allow for the subsequent attrition of this sample over time. Looking back, such data could have, of course, been at least partly supplied by the British Household Panel Survey. At the time, though, this was an unknown source of data. Moreover, whatever the data, it is difficult, as the bulk of small business research has shown, to fully account for macro-economic change.

10.4. The Use of Support By Small Employment Growth Businesses

Central to this thesis, however, has not been the development of any improved measure of small firm performance. Instead, what has been at the core of this thesis has been an investigation of support utilisation by small businesses. The initial impetus behind this resides in a theoretical concern to open up the 'black box' of orthodox economic theory and expose the negotiated reality of economic activity. In a limited way, there is some empirical confirmation of this in this thesis: very few of the owner-managers relied solely on their own counsel whilst there were good grounds for believing that small employment growth businesses made use of government provided assistance (*H3*).

Again, however, a number of criticisms may be made here. For a start, the thesis has

been unable to show causation i.e. that support *caused* the employment growth of the small businesses. Without this, it is perhaps difficult to support the suggestion made by others (Gibb, 2000, 1993; and Jovanovic, 1982) that support is integral to a business or argue against the theoretical doubts of Bennett (1996) who suggested that non-market forms of support were unlikely to prove effective.

Similarly, another valid criticism of the research is that it only considered use of support: little consideration was given to a) what form of government support was used (e.g. TECs, Business Links, Enterprise Agencies, DTI); b) satisfaction with government support; or c) the density of support used by small employment growth businesses. Without the appropriate delineation of which source of government support was utilised, it is difficult to see how the research could help public policy providers target better support. Second, whilst government support is likely to be utilised by small employment growth businesses, it may be that their satisfaction with this support is limited. On the third point, a closer examination of the heterogeneity/homogeneity of support and the nature of affective/transactional links (Aldrich, 1999) would allow us to better specify the nature of the links and relationships between available sources of support. Finally, providing statistically substantive grounds for believing that small employment growth business made use of government provided assistance is one thing but, as Hakim (1989) reminds us, statistical significance is not the same as *substantive* significance.

Looking back, one way in which the research could have been alternatively designed is to consider a qualitative research framework. To operationalise this, the first stage of the research could have sought to identify a control and treatment group. In the

control group, it may have been possible to identify businesses in which the owner-manager identified that they utilised no sources of support. The treatment group, which could have been appropriately matched on a number of criteria (initial employment size, age and sector – see Storey et al, 1988), would be made up of owner-managers who claimed that they used support. Both of these two groups could then have been interviewed to identify the parameters of their business and to ascertain the use, satisfaction with and density of relationships (it may be, as Friedman (1953) suggested that the control group (non users of support) do in fact make some use of support – these can be subsequently removed from the sample).

The activities and use of support of these two groups may be subsequently followed over time to ascertain the impact of support on their business. This may allow a far better specification of the role of support and perhaps lead us to establish more robustly the impact of support on firm performance. Saying that, however, we may find that some of the control group may, over time, begin to utilise support whilst some of the treatment group may elect to stop using support. This may make it difficult to establish whether or not support did actually cause a change in firm performance.

From a quantitative perspective, the research may also have sought more robustly to control for the issues of selection and assistance (Storey, 2001). Hence, the research could have sought to establish a matched pair sample of users of government support and non-users of government support. This would allow, once such selection issues are controlled for, the research to establish the 'value added' of a particular programme. Undertaking such research does, however, require particularly advanced

econometrics (Heckman two-stage procedures). It is also likely that it could only focus on one particular form of support. This would leave the research open to the suggestion that any 'value added' identified could, in fact, be due to other sources of support i.e. what is measured is not the contribution of a particular programme but the general effect of support.

On balance, therefore, there may have been much to have been gained by the research following a more qualitative approach (Shaw, 1997). This would have allowed us much more clearly to see the influence of support on firm performance and help us to see how economic activity is socially constructed (Granovetter, 1985).

10.5. Market Failure: A Demand Side Problem?

Notwithstanding, the alternative ways that the research could have been pursued, the research in this thesis did carefully and coherently identify that government support was utilised by small employment growth businesses (*H3*). This relationship was constant across all of the three growth metrics used (relative, absolute and a combination of the two).

The implication of this research is that government support is more frequently used by small employment growth businesses. Hence, this may serve as a vindication of the policy which has sought to provide support to such businesses.

It may, however, be that such a finding is not altogether surprising. As we saw in Chapter 4, there may be good grounds for believing that small employment growth businesses are more likely, all other things being equal, to need greater levels of support than non-growth businesses. This, though, does not explain the apparent use of government support.

For that, two explanations, potentially inter-related, have been suggested to explain why fast growth businesses may make use of such provision. First, the Northern region, like other regions such as Northern Ireland (Birley et al, 1994), has since the 1930s been exposed to sustained attempts through a variety of government initiatives to improve its economic performance. Keeble (2000, 1994) has subsequently argued that there has grown up, amongst businesses in peripheral regions of the UK, a cultural expectation of publicly provided support. A second reason for the use of public support may be that certain sectors, particularly manufacturing, are inclined to such support (Keeble, 2000).

Neither of these explanations seems entirely likely. If it were so, then it may be expected that *all* rather than *some* businesses would make use of publicly provided support because they see particular benefits (e.g. grants, soft loans) in such support. Bias in businesses' openness to, and preference for, particular forms of support is thus an important feature.

One implication, therefore, of this thesis is that we have to look elsewhere to explain this support. An alternative, and perhaps more contentious, explanation is that small employment growth businesses turn to publicly provided support because they are

unable to access appropriate private sector support from recognised brokers. The thesis then went on to suggest that if there is a failure in the market for support, it would be most appropriate to test this in relation to accountancy support as this is often perceived to be the primary source of support for small businesses.

To specify this more clearly, the thesis considered the use of accountancy support from the perspective of the small business. Four features of the relationship were explored: the role of the accountant (*H4*); the use of non-statutory business support (*H5*); the signalling mechanisms used by small employment growth businesses to select accountants for non-statutory support (*H6*); and the perceived advantages and disadvantages of such support (*H7*).

The results of this investigation were fairly unequivocal. Small employment growth businesses, in common with other small businesses, perceived only a limited role for their accountant. Their use of non-statutory business support was also marginal. Such results, however, may be explained away by arguing that the accountant's services are poorly understood by the small employment growth business. If so, the thesis argued that cost then would be more likely to be used as a measure of the value of non-statutory support than the reputation of the accountant. This was not found to be the case. In fact, reputation was much more likely to be emphasised by small employment growth businesses. Furthermore, where cost was an issue, it was also shown that the chief disadvantages with using accountancy support was the accountant's lack of business awareness and their remoteness from the business

There are a number of implications of these findings. From a theoretical perspective,

it has been long suggested, both within transactional and principal agent frameworks, that small business owner-managers could have a sub-optimal understanding of accountancy support. Typically, this may be due to the high asset specificity of such support and the distance between the principal (the owner-manager) and the agent (the accountant). This may, therefore, explain why small business owner-managers do not make full use of non-statutory accountancy support.

The evidence from this thesis suggests that this is not the case. Small business owner-managers seem to understand the potential support offered to them but decide not to make use of it. There are fewer grounds for believing that information asymmetries, at least from the small business owner-manager's perspective, are pervasive. One implication of this is that small business owner-managers will see business advantages in using new application service providers for the provision of statutory support.

The likely success of such provision, however, is dependent on how the balance is struck between enterprise forms of governance and the urge for accountability. This has formed an increasing part of the theoretical literature on governance issues (e.g. Short et al, 1999; Freedman, 2000, 1994; Armour, 2000) as well as a policy concern to shift the debate onto reducing the compliance costs for smaller sized businesses (DTI, 1999c). On the basis of the results of this thesis, it would seem that it may be appropriate to consider a towards more entrepreneurial forms of governance. This is because accountancy support has been seen as a mechanism for both reducing information asymmetries amongst a business's stakeholders (e.g. shareholders, employers) and because such support is often seen as a means of alerting small

business owner-managers to potential issues within their business.

However, this thesis has shown few grounds for believing that information asymmetries are pervasive amongst small business owner-managers. Consequently, if our primary concern is the economic efficiency of the business rather than the information needs of external stakeholders, it would appear that there are good reasons for pushing forward with more entrepreneurial forms of governance.

10.6. Market Failure: A Supply Side Problem?

If the non-use of accountancy support cannot be adequately explained by a demand side failure, the thesis went onto investigate if it could be explained by a supply side failure. To test this, the thesis examined four further hypotheses: the supply of accountancy support (*H8*); the accountant's perception of the selection criteria used by small businesses to evaluate accountants for non-statutory support (*H9*); the level and nature of contact between the accountant and their small business client (*H10*); and, finally, if accountants who targeted growing businesses were appreciably different in their nature or behaviour to other accountants (*H11*).

What emerged from this investigation was, first, that there were only some grounds for believing that there was an inadequate supply of non-statutory support. On the one hand, sole practitioners and local providers of such support were found to be the least likely to supply such support. Yet, further evidence indicated that there was evidence of specialisation, particularly by smaller sized accountancy practices

Accountants, however, did not perceive that their small business clients were more likely to use cost as a means of identifying suitable accountants for non-statutory support. As before, reputation was the most likely selection criteria. This reinforces the earlier evidence, indicating that there is little in the way of a demand side problem.

Furthermore, it was also found that accountants relied upon their client to provide the impetus for the provision of non-statutory support. It was also found that accountants, who actively target growing businesses, were not markedly different either in their provision of non-statutory business support or in their contacts with their clients.

The accretion of this evidence indicates that the supply of appropriate accountancy support is constrained. Because accountants are not proactively promoting the value of their support, small employment growth businesses are potentially denied business support. The implication of this may be that they face unnecessary and unwarranted business difficulties. This may help explain the level of business failure within the Northern region although it would appear from earlier evidence that small business owner-managers do not appreciate any notional advantages in using non-statutory business support provided by their accountant.

The constrained supply of accountancy support also has consequences for the future of the accountancy profession. As we have seen, statutory provision is already a mature market. Such developments are likely, particularly in the light of the evidence presented in this thesis, to threaten the traditional role of the accountant. The implication, therefore, is that there is a need for accountants, especially smaller sized

accountancy practices, to rethink their present business strategy and seek to develop ways in which to support the business rather than the compliance needs of their clients.

10.7. Conclusions

This thesis has examined the profile of support provision in the Northern region of England. It has found that small employment growth businesses are more likely to use publicly provided support than other types of small business. It has also argued that a reason for this – although perhaps not the only reason – is the inadequate supply of accountancy support. These findings are not claimed to hold for other regional economies. As we have seen, the Northern region is a peculiarly disadvantaged region. Nevertheless, what is particularly valuable about the contribution of this thesis is that it provides important new evidence on the efficacy of private and public support provision and indicates that, because of market failure, there is continuing need to provide publicly provided support for small employment growth businesses.

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Appendix 1: Available Small Business Databases in the Northern Region of England

	Available	*No.*	*Last cleaned*	*Firm Name*	*Address*	*Tel & Fax*	*email*	*Contact Name*	*Job Title*
Northumbria TEC	No	9500	1995	Yes	Yes	Yes	Yes	Yes	Yes
Northumberland Council	Yes	1000	1995	Yes	Yes	Yes	No	Yes	Yes
Tyneside TEC	No	No	No	No	No	No	No	No	No
Teeside TEC	Yes	12,000	1995	Yes	Yes	Yes	Yes	Yes	Yes
Sunderland TEC	Yes	6000	Half done	Yes	Yes	Yes	No	Yes	Yes
Cumbria TEC	Yes	20,000	Not cleaned	Yes	Yes	Yes	No	Variable	Variable
Tyne & Wear Intelligence Unit	Yes	19,000	Quarterly	Yes	Yes	Yes	No	Yes	Yes
North East Chamber of Commerce	Yes	15,000	Daily	Yes	Yes	Yes	No	Yes	Yes
Yellow Pages	Yes	58,306	weekly	Yes	Yes	Yes	No	No	No

	SIC Code	*Postcode*	*Market*	*No. of*	*Tailored*	*Format*	*Cost*	*Extras*
	Yes	No	No	Yes	No	No	None	
Northumberland Council	Yes	Yes	Variable	Yes	Yes	List labels	15p/copy	
Tyneside TEC	No	No	No	No	No	No	No	
Teeside TEC	Yes	Yes	Yes	Yes	Yes		No	
Sunderland TEC	Yes	Yes	Yes	Yes	Yes	List/labels	15p/copy	
Cumbria TEC	Yes	Yes	Variable	Variable	Yes	List	Free	
Tyne & Wear Intelligence Unit	Yes	Yes	Yes	Yes	Yes	List/labels	£85/'000	
North East Chamber of	Yes	Yes	Yes	Yes	Yes	List/Labels,	12p/entry	
Yellow Pages	Yes	Yes	Yes	Yes	Yes	Labels, cards, disk,	£160/'000	

Appendix 2: ***Durham University Business School's 'Accounting for Growth' Survey sponsored by the Research Board of the Institute of Chartered Accountants***

SECTION A: YOUR EXTERNAL ACCOUNTANT

1) Statutory services are defined as Company Secretarial work, Tax Compliance, Statutory accounts and Statutory audit.
2) Limited companies qualify for exemption from audit if their turnover is less than £90,000. Limited companies qualify for an Audit Exemption Report if their turnover is more than £90,000 but less than £350,000.

1. **Is your external accountant professionally qualified** (i.e. a chartered or certified accountant)**?** (Please **tick**)

Yes ☐ No ☐ Don't Know ☐

2. **How would you describe your external accountant's practice?** (Please **tick**)

Local (within the county)	☐
Regional (within the North: Tyne & Wear, Cumbria, Durham, Teesside & Northumberland)	☐
National (within the UK)	☐
International (outside of the UK)	☐
Don't know	☐

3. **How long has your business been a client of your accountant?** (Please **tick**)

3 years or less	☐
4 to 7 years	☐
over 7 years	☐

If you are a sole trader or partnership please now go to question 7.

4. **Does your business use an Audit Exemption Report** (see note 2) **rather than a full audit for its accounts?** (Please **tick**)

Yes ☐ No ☐ Don't Know ☐

5. **If yes, why is this?** (Please tick **one or more** boxes)

An Audit Exemption Report represents a cost saving compared to a full audit	
An Audit Exemption Report is just as acceptable to third parties (e.g. banks) as a full audit	
Other (please specify)	

6. **If not, why is this?** (Please tick **one or more** boxes)

Have been unaware of its existence	
A full audit seen by third parties (e.g. banks) as being more acceptable than an Audit Exemption Report	
An Audit Exemption Report is the same cost as a full audit	
Worried about being at the exemption threshold(s)	
Above exemption threshold(s)	
Other (please specify)	

7. **What work has your external accountant undertaken for the business?** (Please tick **one or more** responses)

Preparation of accounts	
Statutory accounts	
Tax compliance	
Tax consultancy	
Statutory audits	
Non-statutory audits (e.g. Sole Traders, Partnerships, etc.,)	
Company secretarial work	
Payroll and PAYE	
Management accounting	
Management advisory services/Consultancy	
General financial advice (e.g. pensions, investments)	
Insolvency	
Non-accountancy services (e.g. personnel, marketing)	
Other (please specify)	

8. **What factors would you take into consideration when selecting external accountants to undertake work for your business *other than* statutory services** (Statutory services are here defined as: Company Secretarial work, Tax Compliance, Statutory accounts and Statutory audit)**?** (Please tick **<u>one</u>** response **<u>per</u>** statement)

	Very likely	Fairly likely	Not very likely	Not likely
Previously used accountants for non-statutory work				
Accountants had already undertaken statutory work				
Opinion of third parties (e.g. banks)				
Reputation/Quality				
Cost				
Other (please specify)				

9. **What <u>benefits</u> might there be in using your external accountants to provide services for your business *other than* statutory services?** (Please tick **<u>one</u>** response **<u>per</u>** statement)

	Very likely	Fairly likely	Not very likely	Not likely
Providing external view on the business				
Providing general advice for the business (e.g. industry trends, competitor analysis)				
Providing specific advice for the business (e.g. personnel marketing, IT training and awareness)				
Providing financial advice for personal affairs (e.g. tax, pensions, investments)				
Providing budgetary and financial information on the business (e.g. ratios, cash-flow forecasts)				
Other (please specify)				

10. **What <u>drawbacks</u> might there be in using your external accountants to provide services for the business *other than* statutory services?** (Please tick **<u>one</u>** response **<u>per</u>** statement)

	Very likely	Fairly likely	Not very likely	Not likely
Lack of business awareness by accountant				
Breach of confidentiality regarding business				
Too remote from business				
Loss of control over business by management				
Cost of work				
Technical language used by accountant				
Other (please specify)				

11. **What sort of role does your external accountant play in your business?** (Please tick <u>one or **more**</u> responses)

Is an active member of the management team	☐
Provides effective business advice for the management of the business	☐
Provides effective financial management support	☐
Is a source of emergency advice	☐
Provides statutory service (Company Secretarial work, Tax Compliance, Statutory accounts and Statutory audit)	☐
Other (please specify)	☐

12. **Do you expect your business to need any further external accounting services in the future?** (Please **<u>tick</u>**)

Yes ☐ No ☐ Don't Know ☐

13. If so, in which areas? (Please tick **one or more** responses)

Preparation of accounts	
Statutory accounts	
Tax compliance	
Tax consultancy	
Statutory audits	
Non-statutory audits (e.g. Sole Traders, Partnerships, etc.,)	
Company secretarial work	
Payroll and PAYE	
Management accounting	
Management advisory services/Consultancy	
General financial advice (e.g. pensions, investments)	
IT advice and support	
Non-accountancy services (e.g. personnel, marketing)	
Other (please specify)	

14. In general, where do you turn to if your business requires advice and assistance? (Please tick **one or more** responses)

	All the time	Very often	Often	Sometimes	Never
Academic institutions (e.g. Universities, etc.)					
Support Agencies (e.g. TECs etc.,)					
Accountant					
A member of your staff					
Network of contacts					
Family and Friends					
Consultants					
Chamber of Commerce					
Trade Associations					
Solicitor					
Bank					
Nobody					
Other (please specify)					

SECTION B: YOUR BUSINESS

15. **In which year was your business formed?** ☐

16. **Including yourself, how many staff** (full time equivalent 35/hrs/week) **does your business on average employ?** ☐

17. **Has the number of staff employed** (full time equivalent) **over the last two financial years?** (Please **tick**)

Increased ☐ Decreased ☐ Remained the same ☐

18. **If the number of staff has changed, by how many?** ☐

19. **Which of these bands best describes the gross annual turnover of the business in the last financial year?** (Please tick **one** box)

less than £100,000	☐
£100,001-500,000	☐
£500,001- 2,400,000	☐
£2,400,001+	☐

20. **Taking the last 2 financial years, what was the average *percentage* change per year in the gross annual turnover of your business?** (Please tick **one** box)

-51%	-26 to -50%	-11 to -25%	-10%	No change	+10 %	+11 to 25%	+26 to 50%	+51 to 100%	+101%

21. **What is the legal form of your business?** (Please tick one box)

Sole proprietor	☐
Partnership	☐
Limited company	☐
Co-operative	☐

22. **In which of the following sectors is your business based?** (Please tick **one or more** boxes)

Agriculture	
Manufacturing	
Construction	
Consumer Services (e.g. restaurants, tourism, retail outlets)	
Professional Services (business to business)	
Wholesale Services (business to business)	
Any specific sector(s) (please specify)	

23. **Which of these *personnel* issues do you think your business will face during the next 3 years?** (Please tick **one** response **per** row)

Personnel	Already faced & will face again	Already faced & will not face again	Not faced but likely to face	Not faced & unlikely to face	Don't know
Employing first ever worker					
Employing first ever manager					
Employing bookkeeper					
Employing professional manager (e.g. accountant)					
Other (please specify)					

24. **Which of these *production/service* issues do you think your business will face during the next 3 years?** (Please tick **one** response **per** row)

Production	Already faced & will face again	Already faced & will not face again	Not faced but likely to face	Not faced & unlikely to face	Don't know
Introducing initial product(s)/service(s)					
Developing product(s)/service(s)					
Expanding product/service range(s)					
Consolidating product/service range(s)					
Other (please specify)					

25. **Which of these *sales* issues do you think your business will face during the next 3 years?** (Please tick **one** response **per** row)

Sales	Already faced & will face again	Already faced & will not face again	Not faced but likely to face	Not faced & unlikely to face	Don't know
Setting up customer base					
Building up customer base					
Expanding into new markets					
Consolidating customer base					
Other (please specify)					

26. **Which of these *accounting* issues do you think your business will face during the next 3 years?** (Please tick **one** response **per** row)

Accounting	Already faced & will face again	Already faced & will not face again	Not faced but likely to face	Not faced & unlikely to face	Don't know
Coming to terms with bookkeeping					
Installing computer accountancy package					
Developing financial controls					
Using financial controls to monitor, plan and forecast					
Other (please specify)					

27. **Which of these *marketing* issues do you think your business will face during the next 3 years?** (Please tick **one** response **per** row)

Marketing	Already faced & will face again	Already faced & will not face again	Not faced but likely to face	Not faced & unlikely to face	Don't know
Creating acceptance of your product/service(s) with customers					
Building up the reputation of your product/ services(s) with customers					
Developing a marketing strategy					
Monitoring a marketing strategy					
Other (please specify)					

28. Which of these *management* issues do you think your business will face during the next 3 years? (Please tick **one** response **per** row)

Management	Already faced & will face again	Already faced & will not face again	Not faced but likely to face	Not faced & unlikely to face	Don't know
Finding time to supervise work					
Creating management team					
Delegating to managers					
Taking strategic role in the business					
Other (please specify)					

29. Do you think that you will seek help or assistance with any of the issues covered in questions 24 to 29?

Yes ☐ No ☐ Don't Know ☐

30. If so, from which of the following will you seek help or assistance? (Please tick **one or more** responses per row)

	Personnel -tion/ service	Produc	Sales	Accounting	Marketing	Manage-ment
Academic institutions						
Support agencies (e.g. TECs)						
Accountants						
Banks						
Network of business contacts						
Consultants						
Chamber of Commerce						
Trade Associations						
Solicitors						
Other (please specify)						

Thank you for taking the time to complete this questionnaire. Could you please finish by putting your name, the name of the business and your position in the business below:

Name: **Position:**
Business:

Could you please return this to us in the enclosed pre-paid envelope. Thank you very much for your assistance.
Please return to:
Francis Greene, Durham University Business School, Mill Hill Lane, Durham City, DH1 3LB

Appendix 3: ***Durham University Business School's 'Accounting for Growth' Survey sponsored by the Research Board of the Institute of Chartered Accountants***

SECTION A: YOUR ACCOUNTANCY PRACTICE

N.B. 1) If you are part of a regional, national or international firm please answer the question in relation to your own branch of the partnership.
2) Statutory services are defined as Company Secretarial work, Tax Compliance, Statutory accounts and Statutory audit.

1. Which year was your practice established? ☐

2. Please indicate the number of full-time equivalent (35 hrs/week) **staff in your practice** (including yourself)**:**

Partner(s)	☐
Manager(s)	☐
Other qualified accountant(s)	☐
Unqualified/trainee accountant(s)	☐
Other specialist(s) (please specify)	☐

3. How would you describe your practice? (please tick **one** box)

local (within the county)	☐
regional (within the North: Tyne & Wear, Cumbria, Durham, Teesside & Northumberland)	☐
regional (within the North but with federal links to a national practice)	☐
national (within UK)	☐
international (outside of the UK)	☐

4. Which of these characteristics best account for your practice's growth? (Please **rank** from the highest (1= highest) to the lowest)

Ability to attract new clients	☐
Knowledge of client's business	☐
Reputation/quality	☐
Ability to provide non-audit services	☐
Having a close working relationship with clients	☐
Value for money	☐
Marketing of firm	☐
Other (please specify)	☐

5. **Which services does your practice provide?** (Please tick **<u>one or more</u>** boxes)

Preparation of accounts	
Statutory accounts	
Tax compliance	
Tax consultancy	
Statutory audits	
Non-statutory audits (e.g. Sole Traders, Partnerships, etc.,)	
Company secretarial work	
Payroll and PAYE	
Management accounting	
Management advisory services	
General financial advice (e.g. pensions, investments)	
Insolvency	
Non-accountancy services (e.g. personnel, marketing)	
Other (please specify)	

6. **Please rank these services in terms of the fee income they in total generate.** (Please **<u>rank</u>** from the highest (1= highest) to the lowest)

Preparation of accounts	
Statutory accounts	
Tax compliance	
Tax consultancy	
Statutory audits	
Non-statutory audits (e.g. Sole Traders, Partnerships, etc.,)	
Company secretarial work	
Payroll and PAYE	
Management accounting	
Management advisory services	
General financial advice (e.g. pensions, investments)	
Insolvency	
Non-accountancy services (e.g. personnel, marketing)	
Other (please specify)	

7. **Which of these statements apply to your practice's plans for future development?** (Please tick **one** response **per** statement)

We intend to:

	Very likely	Fairly likely	Not very likely	Not at all
Expand the client base by better marketing of existing services				
Increase the scope of services to established clients				
Concentrate on non-statutory work (see note 2 in Section A for definition of statutory work)				
Attract new clients				
Take-over other firm(s)				
Expand into new geographic area(s)				
Merge with other firm(s)				
Attract fast growth businesses				
Other (please specify)				

8. **Which of these possibilities will your practice face in the future?** (Please tick **one** response **per** statement)

	Very likely	Fairly likely	Not very likely	Not at all
Decrease in client base through changes in legislation				
Difficulty in attracting new clients				
Need to increase the marketing of the practice				
Increased competition				
Other (please specify)				

SECTION B: YOUR RELATIONSHIP WITH SMALL AND MEDIUM SIZED ENTERPRISES (SME's)

N.B. Small and Medium-sized Enterprises (SME's) are those businesses that have been found in the North to have turnovers of less than £2,400,000.

9. **What *approximate* percentage of your practice's fees are generated from each of the following sizes of businesses?** (Please tick **one** response **per** row)

Turnover of Businesses	*Percentage of your turnover (%)*									
	10	20	30	40	50	60	70	80	90	100
Micro (less than £100,000)										
Small (£101,000-500,000)										
Medium (£501,000-2,800,000)										

10. **Do you target any particular industrial sector?** (please **tick**)

Yes ☐ No ☐

11. **If so, which one(s)?** (please tick **one or more** boxes)

Agriculture	☐
Manufacturing	☐
Construction	☐
Consumer Services (e.g. restaurants, tourism, retail outlets)	☐
Professional Services (business to business)	☐
Wholesale Services (business to business)	☐
Other specific sector(s) (please specify)	☐

12. **Do you actively target any particular form of business?** (please **tick**)

Yes ☐ No ☐

13. **If so, please describe the legal form(s) of client targeted** (please tick **one or more** boxes)

Sole proprietors	☐
Partnerships	☐
Limited companies	☐

14. **Do you actively target any particular type of business?** (please **tick**)

Yes ☐ No ☐

15. **If so, please describe the type(s) of client targeted** (please tick **one or more** boxes)

Start-ups	☐
Growing Businesses	☐
Mature Family/owner run businesses	☐
Other (please specify)	☐

16. **Has the introduction of the Audit Exemption Report had any significant impact on your work with SME clients?** (please **tick**)

Yes ☐ No ☐

17. **If so, why is this?** (Please tick **one or more** boxes)

Clients are aware of potential cost savings	☐
Audit Exemption Report is just as acceptable to third parties as full audit	☐
Increased the competition from unqualified accountants	☐
Other (please specify)	☐

18. If not, why is this? (Please tick **one or more** boxes)

Clients are unaware of changes in legislation	☐
Full audit seen by third parties as being more acceptable than Audit Exemption Report	☐
Audit Exemption Report involves the same amount of work as a full audit	☐
Many clients are at the exemption thresholds	☐
Other (please specify)	☐

19. How frequently do your SME clients use your practice for advice other than that required to satisfy statutory requirements? (Statutory services are here defined as: Company Secretarial work, Tax Compliance, Statutory accounts and Statutory audit) (Please tick **one** box)

Annually	☐
Bi-annually	☐
Quarterly	☐
Monthly	☐
Continuously	☐
Not at all	☐

20. What actions usually lead to your practice carrying out non-statutory work for new SME clients? (Please tick **one** response **per** statement)

	All	Majority	Some	None
Direct marketing				
Recommendation by third parties (e.g. Banks)				
Recommendation from existing client				
Other (please specify)				

21. What actions usually lead to your practice carrying out non-statutory work for existing SME clients? (Please tick **one** response **per** statement)

	All	Majority	Some	None
Approach from existing client				
Direct marketing				
Your firm suggests areas of support to existing clients				
Through existing association with statutory work clients				
Recommendation by third parties (e.g. Banks)				
Recommendation from existing client				
Other (please specify)				

22. **How many times a year does a partner (or senior manager) initiate contact with each SME client to discuss matters other than statutory work?** (Please tick **one** response **per** row)

	All	Majority	Some	None
Annually				
Bi-annually				
Quarterly				
Monthly				
Continuously				
Not at all				

23. **What factors do you consider are influential in a SME client's selection of a firm of accountants to perform non-statutory work?** (Please tick **one** response **per** statement)

	Very	Fairly	Slightly	Not very	Not at all
Previously performed non-statutory work					
Specialist knowledge of industry					
Reputation/quality					
Previously performed statutory work					
Acceptability to third parties					
Geographical proximity					
Cost of work					
Other (please specify)					

24. **In your opinion, do SME clients perceive problems in the use of accountants for non-statutory work?** (please **tick**)

Yes ☐ No ☐

25. **If so, what problems do SME clients perceive in the use of accountants for non-statutory work?** (Please tick **one** response **per** row)

	All	Majority	Some	None
Lack of knowledge of company products/processes by accountant				
Potential for breaches of confidentiality				
Perceived loss of control by management				
Technical language used by accountants				
Cost				
Other (please specify)				

26. **Does your practice provide management support and assistance when dealing with its SME clients?** (please **tick**)

Yes ☐ No ☐

27. **If so, where does your practice go if it requires support and assistance for its SME clients?** (Please **score** from the highest (1= highest) to the lowest)

Already has the experience/expertise in-house	
Partners in associated practices	
Network of contacts	
Consultants	
Government sponsored agencies (e.g. TECs, Business Links)	
Chamber of Commerce	
Solicitors	
Banks	
Academic Institutions	
Other(s) (please specify)	

28. **What challenge(s) are faced by accountants in relation to their SME clients?** (Please tick **one** response **per** statement)

	All	Majority	Some	None
Competition from unqualified accountants				
Increased likelihood of the extension of audit exemptions				
Effective marketing to SMEs				
The public image of accountancy				
Improving the profession's understanding of SMEs				
Increasing the relevance of accounting services to SMEs				
Continuing to offer value for money				
Other (please specify)				

Thank you for taking the time to complete this questionnaire. If you would like a copy of the findings or to participate further in the project please put your name, your firm's name, and your position in the practice below:

Name: Position:
Firm:

As part of the project we need to determine how SME's perceive and use the services provided by the accountancy profession. There are many ways of independently surveying SME's but it may be more productive to look at your practice's relationship with its SME clients. In this way, we may be able to give a more practical insight into the relationships between accountants and SME's. Therefore, would you be prepared to? (please tick **one or more** boxes)

Pass on a questionnaire to your SME clients. This would then be returned in a pre-paid envelope anonymously to us and analysed. Subsequent results would be detailed in a report to you on an aggregate basis.

[ ]

Permit us, with their approval, to contact your SME clients directly. Acting again as an independent third party, we would select a sample of your SME clients and analyse their returns on an aggregate basis along with other, similar businesses.

[ ]

Do not wish to be involved [ ]

Other (please specify)..... [ ]

Could you please return this to us in the enclosed pre-paid envelope. Thank you very much for your assistance.

Please return to:

Francis Greene, Durham University Business School,
Mill Hill Lane, Durham City, DH1 3LB

Appendix 4: Bivariate Correlations for REL_EMP and ABS_EMP

	REL_EMP	ABS_EMP
ABS_EMP	0.59***	
LOGITEMP	0.58***	0.59***
AGECO	0.07	0.01
EMPLOY	0.09	0.23***
TYNEWEAR	0.00	0.04
DURHAM	-0.04	-0.03
CLEVE	-0.07	-0.02
NORTHUM	0.12**	-0.04
CUMBRIA	0.01	0.03
LTD_CO	0.08	0.12**
PARTNER	-0.03	-0.05
SOLE	-0.07	-0.09
TURN1	-0.11**	-0.16***
TURN2	0.05	-0.03
TURN3	0.01	0.11**
TURN4	0.05	0.08**
TURNHIGH	0.16***	0.20***
TURNGRTH	0.06	0.16***
TURNSAME	-0.09*	-0.09
TURNFALL	-0.02	-0.17***
TURNLOW	-0.13**	-0.16***
WHOLESAL	-0.07	-0.04
CONSTRUC	0.11*	0.04
MANU	0.04	0.07
PROFSERV	-0.02	0.01
CONSERV	-0.07	-0.06
AGRIC	0.01	-0.01
NOBODY	-0.119**	-0.123**
FAMFREND	0.01	-0.07
STAFF	0.03	-0.04
NETWORK	0.00	-0.01
ACCOUNT	0.00	0.05
BANK	0.029	0.038
SOLICIT	-0.052	0.017
CONSULT	-0.17***	-0.08
ACADEMY	-0.05	-0.22***
SUPAGENT	0.03	-0.04***
CHAMBER	0.02	-0.03
TRADE	0.046	-0.059

Appendix 5: Multivariate Regression Results (Without Turnover Variables) for REL_EMP, ABS_EMP and LOGITEMP

	REL_EMP				**ABS_EMP**				**LOGITEMP**			
	Model 1		*Model 2*		*Model 1*		*Model 2*		*Model 1*		*Model 2*	
	B	t	B	t	B	t	B	t	B	Wald	B	Wald
Constant	-2.364	-0.184	138.645	2.242	-0.138	-0.20669	9.795	3.068	-11.283	0.110	11.008	0.055
AGECO	0.122	0.908	0.187	1.401	-0.006	-0.803	-0.001	-0.083	-0.008	0.515	-0.013	0.607
EMPLOY	0.340	0.837	0.318	0.747	0.084	3.968***	0.082	3.729***	0.022	0.838	-0.014	0.121
County												
TYNEWEAR	-4.930	-0.456	-5.858	-0.539	-0.507	-0.904	-0.660	-1.176	-0.485	0.390	1.148	0.640
DURHAM	-14.693	-1.173	-19.707	-1.558	-0.650	-0.999	-1.135	-1.738*	-8.904	0.066	-11.580	0.065
CLEVE	-6.804	-0.551	-8.578	-0.699	-0.231	-0.360	-0.464	-0.732	-0.627	0.427	-1.517	0.847
NORTHUM	25.968	1.762*	23.830	1.610	-0.051	-0.067	-0.416	-0.544	0.191	0.047	2.131	1.655
Legal Status												
LTD_CO	7.689	0.626	9.479	0.760	0.281	0.440	0.511	0.793	8.803	0.067	11.537	0.062
PARTNER	4.663	0.402	9.063	0.767	0.191	0.317	0.500	0.820	6.499	0.036	6.675	0.021
Sector												
WHOLESAL	-10.632	-0.920	-10.677	-0.929	-0.309	-0.514	-0.373	-0.628	-0.905	0.626	0.387	0.061
CONSTRUC	19.046	1.673*	22.479	1.962*	0.246	0.416	0.471	0.795	1.166	2.028	3.976	6.742***
MANU	4.858	0.471	4.121	0.403	-0.091	-0.170	-0.344	-0.650	0.699	0.707	1.526	1.087
PROFSERV	-1.511	-0.100	-2.962	-0.276	0.310	0.393	-0.121	-0.218	0.414	0.156	1.463	0.684
CONSERV	-0.561	-0.053	-8.308	-0.537	0.064	0.117	-0.307	-0.385	0.344	0.077	-0.084	0.002

Sources of Support								
NOBODY	-19.435	-2.699***		-0.954	-2.565***		-2.337	8.113***
FAMFREND	1.526	0.393		-0.273	-1.364		-0.716	2.251
STAFF	4.571	1.324		0.220	1.234		-0.050	0.018
NETWORK	-1.681	-0.438		0.123	0.619		0.008	0.000
ACCOUNT	-0.417	-0.112		-0.003	-0.015		-0.064	0.014
BANK	0.576	0.144		0.040	0.192		-0.560	1.128
SOLICIT	-0.617	-0.141		0.351	1.556		0.313	0.320
CONSULT	-18.805	-3.174***		-0.390	-1.275		-0.826	2.048
ACADEMY	-10.809	-1.290		-1.539	-3.559***		-2.240	8.367***
SUPAGENT	11.100	1.852*		0.581	1.876*		1.016	2.224
CHAMBER	-2.509	-0.342		-0.106	-0.279		-1.180	2.407
TRADE	7.920	1.815*		0.002	0.011		0.789	2.047
N.	293	293	293	293	N.	294	294	
R	0.237	0.368	0.280	0.407	Log Likelihood	84.31	52.32	
R^2	0.056	0.135	0.079	0.165	Chi-square statistic (d.f.)	28.26 (18)	60.24 (25)	
Adj R^2	0.013	0.054	0.036	0.087	Sig.	0.008	0.0001	
F	1.285	1.675	1.836	2.123	Cox & Snell – R^2	0.92	0.185	
Sig.	0.221	0.026	0.038	0.002	Nagelkerke– R^2	0.288	0.582	

Appendix 6: Multivariate Regression Results (Without Turnover Variables) for REL_EMP, ABS_EMP and LOGITEMP

	REL_EMP		ABS_EMP		LOGITEMP	
	B	t	B	t	B	Wald
Constant	27.923	1.587	0.882	0.960	-10.227	-0.753
Firm Variables						
EMPLOY			0.084	3.889***		
Relationship with Accountant						
REGION	2.050	0.228	0.260	0.553	0.732	1.063
INT_NAT	-0.784	-0.059	-0.275	-0.397	-0.327	0.071
KNOW>4<7	-37.041	-2.780***	-1.456	-2.091**	-1.293	1.473
KNOW>7	-31.493	-2.701***	-0.642	-1.054	-0.301	0.141
MGT_TEAM	0.523	0.021	0.954	0.720	0.012	0.000
BUS_ADV	-5.346	-0.481	-0.725	-1.248	-1.039	1.077
MGTSUPP	24.737	1.950*	0.388	0.586	0.253	0.082
EMERGEN	-8.554	-0.790	-1.073	-1.896*	-1.372	1.899
R		0.336		0.348	N.	287
R^2		0.113		0.121	Log Likelihood	75.239
Adj. R^2		0.043		0.051	Chi-square statistic (d.f)	36.64 (21)
F.		1.606		1.739	Sig.	0.0185
Sig.		0.048		0.025	Cox & Snell R^2	0.120
d.f.		286		286	Nagelkerke R^2	0.371

Appendix 7: Multivariate Regression Results (Without Turnover Variables) for REL_EMP, ABS_EMP and LOGITEMP

	REL_EMP		ABS_EMP		LOGITEMP	
	B	t	B	t	B	Wald
Constant	-10.227	-0.753	-0.887	-1.290	-12.490	0.147
Firm Variables						
EMPLOY			0.083	3.946***		
NORTHUM	28.802	1.935*				
MANU	20.244	1.747*				
Use of Non-statutory services						
TAX_CONS	3.503	0.402	-0.121	-0.275	0.425	0.303
PAY_PAYE	22.790	2.077*	1.628	2.930***	1.224	1.985
MGT_ACC	-7.394	-0.543	-0.603	-0.874	0.059	0.003
MAS_SERV	-14.060	-1.153	-1.305	-2.115**	-2.364	4.258**
GEN_FIN	2.323	0.265	1.180	2.656***	1.002	1.898
NON_ACC	8.724	0.319	1.386	1.002	1.035	0.369
N.		293		293	N.	294
R		0.276		0.378	Log Likelihood	75.25
R^2		0.076		0.143	Chi-square statistic (d.f.)	37.32 (19)
Adj. R^2		0.012		0.084	Sig.	0.007
F.		1.190		2.411	Cox & Snell R^2	0.119
Sig.		0.265		0.001